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NEWS SUMMARY

GENERAL

Bush out of White House race

George Bush withdrew as contender for the Republican presidential nomination "because of the public perception that the race was over."

The certainty that Ronald Reagan will get the nomination in July dried up funds for Mr. Bush.

But he said he technically remained a candidate to qualify for federal funds to reduce his campaign debt. Page 2

Iran mission

Three European Socialist leaders headed by Austrian Chancellor Bruno Kreisky were due to end their brief fact-finding mission to Iran aimed at helping to free the American hostages. Back page.

Briton held

British freelance correspondent Nicholas Cummings-Bruce of The Guardian was detained by revolutionary guards in Tehran because he did not hold a valid press visa.

Kampuchea plea

UN secretary-general Kurt Waldheim opening a two-day conference on Kampuchea appealed for £77m in world aid to stave off catastrophe. Page 2

Assam violence

Four people died and more than 2,000 were reported hurt during demonstrations by minority settlers against moves to expel them from India's Assam state. Seven towns were put under curfew.

Housekeeper dies

Housekeeper of the Kent priest found murdered on Friday died in Ramsgate hospital without regaining consciousness. Detectives are hunting Henry John Gallagher who failed to return to Maidstone prison after a visit home to Dundee.

Boy 'snatched'

Scottish police are investigating reports that 10-year-old Raymond Plack may have been taken from a Roman Catholic home near Edinburgh by Protestant extremists called in by his father.

Richardson appeal

Police hunting former underworld gang leader Charles Richardson appealed for help from motorists on the A41 Aylesbury-London road on Saturday morning.

Bologna ban

Italian Football Federation investigating bribery allegations banned the president of first division club Bologna for one year and two players for three and a half years.

Court protest

Demonstrators chanting "We're not leaving" clashed with police in the Queen's Bench Court building in Canberra.

Briefly...

Ordnance first parking meters are to be introduced in Kirkwall on July 1.

Total of 155 tremors have rocked the Mount Kopaonik area of southern Yugoslavia in the last week.

Nearly 40,000 cars an hour were estimated to be leaving London on the Bank Holiday yesterday. Catering staff at Madrid airport ended a 94-day strike.

BUSINESS

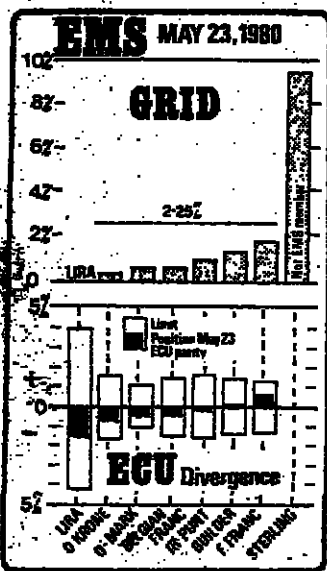
Strong sterling boosts BNOC

STERLING'S strength against the dollar has enabled British National Oil Corporation to fund itself for three years with \$825m (£352m) of loans at a net cost of only £2m. Back Page

FRENCH franc continued as the strongest currency within the European Monetary System last week, followed by the Dutch guilder. Short-term money rates have remained firm in Paris and this helped the franc to maintain its position.

The Belgian franc was slightly easier, falling below the Irish punt, but maintaining its position above the D-mark and Danish krone.

The Italian lira was once again the weakest member of the system, although there was no pressure on the currency and it remained within its maximum permitted divergence by a comfortable margin.



The charts show the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2.5 per cent. The lower chart gives each currency's divergence from its central rate against the European Currency Unit (ECU), itself a basket of European currencies.

UK MERCHANT shipping fleet fell by 6.2m deadweight tons last year, the sharpest drop for 35 years, but the General Council of British Shipping believes the decline is almost over. Page 5

NEW METHOD of deep sea oil production using submersible-like crews of up to 50, is being developed by a consortium of four leading British companies. Page 4

USE of Government aid for the UK machine tool industry has been attacked by the National Institute of Economic and Social Research. Back Page

AGREEMENT has been reached on the merger of Hong Kong's four Stock Exchanges. Back Page

MOTOR-CYCLE sales in the UK are expected to reach a record level this year. Sales in April were almost a third higher than a year ago.

GAS industry in Northern Ireland faces virtual collapse following the Government's decision not to lay a natural gas pipeline to the province from Scotland. Page 4

FT GROCERY Prices Index rose 2.3 per cent — the highest monthly increase for almost a year — in May. Page 7

OMAN has raised the price of its crude oil by \$2 to \$22.20 a barrel.

SHEFFIELD and South Yorkshire Navigation has received an EEC grant of more than £1m for civil engineering on Britain's first major canal development for 60 years. Page 5

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NATIONAL INSTITUTE QUARTERLY REVIEW

Pay round 'likely to harm economy for several years'

BY ANTHONY HARRIS

THE LIKELY level of wage increases in the next bargaining round will cause a massive squeeze on company profits, which will depress the economy for several years, says the National Institute of Economic and Social Research.

Meanwhile, the fall in the inflation rate may be "painfully slow, extending over several years before even reaching single figures."

This prospect would be transformed if wage settlements could be reduced sharply, says the National Institute's quarterly review, published today. Such a fall is thought highly unlikely in a free labour market.

The forecast for the immediate future is less gloomy than the general consensus, projecting a fall of only 1 per cent in GNP in 1980, with a drop of 2.1 per cent in manufacturing output, followed by a rise of 2.4 per cent in GNP in 1981. This is a considerably higher figure than that suggested in the Treasury forecast published with the Budget.

The National Institute fears that further recovery will then be impeded for several years by the drop in investment likely to result from the squeeze on corporate cash flow.

"The impact on the non-oil, non-financial company sector will still be apparent in 1983," the review says.

Unemployment is expected to reach 2m by the end of 1981,

and will then still be rising strongly.

The core of the institute's forecast is the belief that wages tend to rise in line with retail prices, and are influenced little, if at all, by monetary targets.

"Events so far have justified our scepticism," the review comments.

This implies that the main impact of the Government's squeeze must fall on industrial profit margins outside the oil industry.

Gross trading profits are expected to collapse from £15bn in 1979 to £4.4bn this year and

Details: Page 6
Lombard, Page 12
Lex, Back Page
Machine tool industry "backward", Back Page

£2.4bn next—in real terms, less than a third of their value in the previous trough in 1975.

This, in turn, generates a forecast that the non-oil corporate sector will need to borrow £10bn this year and £11bn in 1981.

Partly for this reason, the institute is pessimistic about the prospect for interest rates, despite the forecast reduction in public sector borrowing, which is regarded as achievable.

After taking account of the increase in the reported money supply which will result from the abolition of the banking "corset" next month, and the Government's reduced target for monetary growth next year, the

review concludes: "Interest rates are likely to have to remain at current levels in the second half of this year, and the scope for further falls in 1981 is limited."

It emphasises that there must be unusual uncertainty about the details of its own or any other economic forecast at present, because the distortions in the economy caused by wage pressure, tight money and a high exchange rate are unprecedented.

"The departure from previous trends of behaviour in growth, productivity, interest rates, price and wage inflation is cumulatively so great that it becomes increasingly unlikely that the underlying characteristics of the economy are unchanged."

If the balance of relative interest rates and the influence of North Sea oil on the exchange rate should change to permit some easing in the exchange rate, the pressures the review forecasts would be less extreme.

Eased wage pressure would help even more, leading immediately to lower inflation and improved profit margins.

However, the institute regards the relation between wages and prices as strong, and unlikely to be broken by either the pressures on company liquidity or by the expected rise in unemployment.

"Only conscious reform of the wage bargaining situation will suffice," the review concludes.

EEC renews search for end to budget row

BY JOHN WYLES IN BRUSSELS

EEC GOVERNMENTS will renew their search this week for an end to the increasingly damaging dispute over Britain's payments to the Community budget with little prospect of meeting their end-of-the-month deadline for settlement.

Without an unforeseen burst of political will, it appears more and more likely that the dispute will, for the third time in seven months, pre-occupy an EEC Heads of Government summit, this time in Venice on June 12-13.

By then, France could well be trying to force the UK one of its principal bargaining cards—the fact that Britain can blank the 5 per cent rise in farm prices agreed by the other Eight.

Unless Britain drops the veto, which it will not without the budget deal, then France is set to launch a national scheme from June 1 designed to give its farmers an equivalent rise in incomes.

This is bound to increase the

Community's internal disarray. But the prospect of a new phase in the budget crisis has not yet persuaded West Germany or France to abandon the sullen resentment generated at last month's Luxembourg summit by Britain's rejection of a Franco-German offer to cut the UK's payments this year and next, by £765m.

The subsequent withdrawal of this offer has cloaked the issue in such inertia that it is still not clear whether Community Foreign Ministers will meet on Thursday to attempt to negotiate an outline agreement which could be rubber-stamped in Venice.

The Italian Government, which occupies the Community presidency, will take a final decision on whether to press ahead with this meeting after hearing discussion today by EEC Finance and Economics Ministers.

This group has never dealt in detail with the British prob-

lem and today's session is unlikely to do more than approve new figures produced late last week by the European Commission as a basis for negotiations.

These figures suggest that the UK's net payments to Brussels will rise from £1.16bn this year to between £1.36bn and £1.41bn in 1981, depending on how much farm spending arises next year.

The Commission indicates there should be enough money in the Brussels kitty to finance a substantial reduction in the UK's net payments in 1980 and 1981. But the British could find the cupboard bare in 1982, the Commission's forecasts suggest, unless agriculture costs are much more rigorously controlled than hitherto.

EEC farm ministers, meanwhile, will meet tomorrow and on Thursday to grapple, among other things, with the Anglo-French lamb row which France wants settled with the UK budget problem as part of a package deal.

Japan scoops new ship orders

BY WILLIAM HALL, SHIPPING CORRESPONDENT

THE SIZE of the order books of the world's shipyards continues to rise but Japanese shipbuilders are capturing the majority of the orders and increasing their dominance of the world shipbuilding industry. Over the last three months, 333 ships totalling 12.0m dwt have been ordered and roughly two-thirds of the orders have been placed in Japanese yards.

During the last 12 months the size of the Japanese order book has more than doubled to 25.1m dwt while the total world shipbuilding order book has risen by less than a quarter to 63.2m dwt.

In its latest edition of World Ships on Order, Fairplay International reports that in the three-month period ending April, 1980, the world ship

order book rose by 2.4m dwt over the previous quarter.

During the latest period 82 bulk carriers totalling 5.5m dwt and 134 tankers of 5.5m dwt were ordered. In the comparable period of last year only 1.2m dwt of bulk carriers and 2.6m dwt of tankers were ordered, which gives some idea of the improvement in confidence among the world's shipping companies.

Within the total order book the mix has changed fairly dramatically. There are only 23 tankers (3.4m dwt) of over 150,000 dwt on order whereas there are 619 tankers (24.1m dwt) of under 150,000 dwt on order. The average size of these tankers is 39,000 dwt.

Japan replaces Hong Kong at the head of the list of countries

ordering new ships over the last quarter. Japanese owners ordered 53 ships totalling 2.5m dwt followed by Hong Kong (1.5m dwt), the U.S. (1.2m dwt) and Norway (1.1m dwt).

The Japanese ordered more tankers than anybody else, but both Hong Kong and Norwegian owners ordered a considerably larger amount of bulk carrier tonnage than tanker tonnage.

Once again the Fairplay statistics underline the strength of the Japanese shipbuilding industry which won 7.5m dwt of the 12m dwt of shipping ordered. South Korea captured 1m dwt of new orders and Belgium, Sweden, and the U.S. each won orders for over 400,000 dwt.

Merchant shipping fleet decline and Swire profile. Page 5

Troops ready to take Kwangju

By Our Foreign Staff

TEN THOUSAND South Korean troops prepared last night to take the beleaguered south-western city of Kwangju by force following the breakdown of negotiations with armed students still controlling the centre of the city after an open rebellion six days ago.

Heavily-armed students holding out in the centre of the provincial capital, threatened to blow up the city using dynamite commandeered from local mines if the army carried out its threat to move in with force to take the city.

The army had set a deadline for the students to hand over their arms, but several hours after the deadline had passed the army had still not moved in.

A estimated 250 people have died in the uprising—the worst in over two decades. There are growing fears that unless the crisis is resolved promptly, the consequences for the economy, which is already in difficulties, will be severe.

Regular troops surrounding Kwangju easily outnumber the students in men and fire power but a clash between the two sides could entail very serious risks.

The students, numbering a few hundred, represent the core of a group of Kwangju residents who protested against repressive measures announced early last week by the central Government.

UK goes ahead with Seoul exhibition. Page 3

Sadat asks U.S. to aid peace talks

BY OUR FOREIGN STAFF

PRESIDENT ANWAR SADAT of Egypt, says the U.S. must come forward with its own proposals to break the deadlock that prevented Egypt and Israel from meeting Monday's target date for an agreement on Palestinian autonomy.

"That is what I am asking now," President Sadat said in an interview in Egypt with the Washington Post published yesterday. "It may be an American paper, an American proposal or American efforts between us and Israel to find some compromise in between so we can proceed with the talks," he added.

President Sadat also said the negotiations "will never collapse, for the very simple reason that between Egypt and Israel there is a treaty now, there are good relations, there is good neighbourliness, there is a table around which we sit even if we are different."

At the same time Egypt is now formally resigned to the fact that as Mr. Carter feels unable to place any pressure on Israel because of his electoral campaign the Camp David process is likely to be stagnant until November.

President Sadat suspended the negotiations with Israel on May 8 after a Bill was drafted in the Israeli Knesset (Parliament) declaring Jerusalem to be "the eternal, indivisible Capital of the Jewish State." The Egyptian leader said that

amounted to putting a pre-condition on the negotiations. "No party should put pre-conditions or pressures on the other, and let us continue the talks," he appealed.

Yesterday Mr. Kamal Hassan Ali, one of Mr. Sadat's six new Deputy Premiers, said yesterday that Egypt was prepared to abandon the negotiating framework provided for by the Camp David accords if no agreement on autonomy for the Arabs of the West Bank and Gaza Strip was reached in 10 months.

Egypt was ready to wait until after the U.S. presidential election, but would then expect rapid progress on the question, he explained. Following the failure to meet the May 26 deadline for completion of the talks which only got down to matters of substance last month, after a year of exchanges, negotiations quickly foundered over the question of responsibility for security in the territories.

On another topic, President Sadat proposed that American F-15 jet fighters and other sophisticated U.S. weapons be permanently stationed in Egypt to be turned over immediately to U.S. forces in times of crises in the Middle East.

But he said he would never accept U.S. combat troops or a

Continued on Back Page
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BL weathers car sales fall

FINANCIAL TIMES REPORTER

UK CAR SALES are continuing to decline from the high levels of earlier this year, according to unofficial figures circulating within the industry.

Sales for the first three weeks of this month totalled only 37,000, suggesting a large fall from the 193,000 cars sold in May last year.

BL is taking some encouragement from retaining a 30 per cent share in a fiercely competitive market. The Marina model alone, backed by a price cut, is thought to have captured around eight per cent.

But Ford remains clear leader with 30.6 per cent, with Vauxhall 7.1 per cent and Talbot at 5.9 per cent. Imports are running at 55.7 per cent. Market performance is

crucial to BL Cars in a year when maintaining cash flow will be the key test. Some dealers argue that the company should reintroduce bonus payments to remain competitive in the fleet market when other networks are making special offers.

But this was rejected last night by Mr. Ray Horrocks, BL Cars managing director. He said price reductions on the Marina and Max had created an extra customer interest. A new Morris would be launched in July to replace the Marina.

"Our dealer network is now better placed to face the future than most others in the country," he said.

The "Buy British" campaign had reduced stocks in the net work and at factories by

20,000 to around 100,000. There was now a good balance of models. To safeguard longer-term cash flow, factory closures and de-manning has been accelerated.

By the end of this month 12,000 jobs will have been lost of the 25,000 cuts announced by Sir Michael Edwards, the BL chairman, last September.

Some 2,000 workers have been shed at Canley, Coventry, with the transfer three months ahead of target of Triumph TR7 production to Solihull, Birmingham. A similar number has left Castle Bromwich, Birmingham, with the transfer of Rover body manufacture at Cowley, Oxford.

BL's new car progress. Page 4

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OVERSEAS NEWS

Bush withdraws from race for Presidency

BY DAVID BUCHAN IN WASHINGTON

MR. GEORGE BUSH yesterday finally said he was quitting his two year long bid for the Republican presidential nomination, and he congratulated Mr. Ronald Reagan on his "superb victory" in the overwhelming number of primary elections so far this year.

As Mr. Reagan's last and most dogged challenger has bowed out, he can count as a formality that the Republican Party convention will bestow on him its presidential nomination when it meets in Detroit in July. This will most likely pit him against President Jimmy Carter, as the Democratic contender, and possibly Mr. John Anderson, running as an independent in the November election.

By all estimates, Mr. Reagan now has at least enough Republican delegates (998) to be assured of winning his party's nomination—and this is before the last and major round of primaries, to be held on June 3.

Mr. Bush, whose campaign has gradually slid downhill since he trounced Mr. Reagan in January in Iowa, the opening campaign battle, said yesterday in his home city of Houston, Texas, that he had pulled out because of the public perception that the race was over.

The certainty that the former California governor will get the Republican nomination has dried up funds for Mr. Bush. However, the former Ambassador to the United Nations said he technically remained a candidate, so as to qualify for federal matching campaign funds to reduce his campaign debt.

Ironically, Mr. Bush's withdrawal came only six days



Mr. George Bush... most dogged challenger

after his biggest primary victory over Mr. Reagan—in Michigan. But, by that time, an overall Reagan victory had come to be seen as inevitable, and the media discounted the Michigan result as something of a fluke, instead concentrating on Mr. Reagan's ever-lengthening lead in delegates.

Earlier on in the race, the Michigan victory might have brought money into the campaign—but it was too late for this, as Mr. Bush conceded yesterday.

Mr. Reagan now has several weeks before the Detroit party conclave to ruminate on his choice for a vice-presidential running mate. Given his age, 69, it is considered particularly important for Mr. Reagan whom he chooses as vice-presidential candidate, as well as for the more usual reason of political and geographical balance.

Halt called to Norway air traffic

By Fay Gjester in Oslo

A STRIKE of Norwegian air traffic controllers, starting today, will ground all civilian air traffic in Norway until Friday at the earliest. Helicopter traffic to offshore oil installations in Norway's part of the North Sea will also be hit.

The Oslo Government has asked the Storting (parliament) to make the dispute subject to compulsory arbitration, but the strike will continue until the bill authorising this has been approved—a process which will take several days.

The controllers are among a group of 600 key civil servants who have been ordered to strike by their union, the University Graduates Association, which is dissatisfied with pay increases offered to its 40,000 civil service members.

Hardest hit, the association has argued, are recent graduates, who have to repay large state education loans out of relatively modest starting salaries.

In another dispute, 2,000 offshore workers are threatening to strike from tomorrow on Norway's three producing oil and gas fields—Frigg, Statfjord and Ekofisk, over leave and pensions.

Press strike in Italy

By Rupert Cornwell in Rome

ITALIAN NEWSPAPERS will not appear today, as a result of a one-day strike by journalists in protest against the jailing of a colleague for publishing the top secret transcript of the confession of one of the most important Red Brigades terrorist leaders so far captured.

The journalist, Sig. Fabio Isman, of the Rome daily, *Il Messaggero*, was sentenced to 18 months imprisonment for his part in the affair. His source, the deputy head of the internal secret services, Sig. Silvano Russonanno, received a 32 month term, while the paper's editor escaped with a light fine of L400,000 (£210).

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Sanjay Gandhi nears last base

BY K. K. SHARMA IN NEW DELHI

A SEARING midsummer sun scorches the earth of India's northern Gangetic belt, where the two most populous states of Uttar Pradesh and Bihar are located. These are politically the most important in the country.

It is election time for the fourth time in less than three years. Here they have elected their state assemblies twice. Parliamentary elections were held less than five months ago and they are to elect new state legislatures again from May 28 to 31.

Little wonder that the largely illiterate voters in Uttar Pradesh and Bihar, as well as seven other states which are to go to the polls, are blasé and lethargic. As if the summer heat (mid-day temperatures are more than 115 degrees Fahrenheit) was not sufficiently discouraging, the entire country is gripped by the grim after-effects of last year's drought, the century's worst. The soil is dry and cracked, many villages have no drinking water and mass migration of people and cattle from the worst affected areas has begun.

To make matters worse, the Indian economy shows no sign of recovery from the drought, which resulted in a shrinkage in the gross national product in 1979-80. Inflation continues unabated and has exceeded a 20 per cent annual rate.

Shortages of various goods add to the people's difficulties. Almost all the rural and urban areas in the nine states where

elections are to be held face severe power cuts (because of low water levels in the reservoirs fuelling hydro-electric stations, and poor maintenance of thermal stations). There is an acute scarcity of diesel and kerosene, so villages have no lighting or fuel to run their irrigation pump sets. Sugar is not available and vegetables are highly priced.

Such a setting is hardly conducive to electioneering. Indeed, the politicians are among the few excited by the election. Meetings are thinly attended and even Mrs. Indira Gandhi, the Prime Minister, who has been on the move for the past six weeks, is finding that she is not the draw she was in the January Parliamentary election. At some of her meetings, barely a score of people were present.

Trade deficit widens

INDIA'S trade deficit in 1979-1980 widened to a record Rupees 22,330m (£1,250m) despite an 8.21 per cent increase in exports compared with the previous year, K. K. Sharma writes from New Delhi.

The main reason is the sharp increase in the cost of imports, especially oil and fertilisers, which rose to a record Rupees 52,310m (£4,600m), a 24.6 per cent increase from imports in 1978-79.

According to figures an-

nounced yesterday, exports in 1979-80 were valued at Rupees 59,990m, compared with Rupees 55,440m in the previous year.

The trade gap, which has more than doubled, has caused serious concern since it has caused foreign exchange reserves to fall for the first time in five years, and shows that earnings from exports and invisible can no longer compensate for the sharp price rises for imported oil and petroleum products.

This is possibly due to the summer heat, but could also be a sign of the electorate's weariness with politicians. After all, Mrs. Gandhi has so far made no impact on the country's vast economic problems and there is little to distinguish her performance from that of the Janata Party that she displaced in January.

Yet it is probable that Mrs. Gandhi's Congress (I)—the "I" for India—will win the elections. They are being held in the nine states where parties opposed to Mrs. Gandhi performed badly in the January Parliamentary elections. This was taken by her to mean that the non-Congress State Governments were promptly dismissed, the assemblies dissolved and

fresh elections were ordered. Apart from Uttar Pradesh, the states going to the polls are Punjab, Rajasthan, Madhya Pradesh, Orissa, Gujarat, Maharashtra and the Southern state of Tamil Nadu. Although there are 22 states in India, the nine include nearly two thirds of the country's electorate, so this is almost a mini general election.

Mrs. Gandhi has the upper hand because the parties opposing her are even more divided now than in January. The various fragments into which the Janata split have been shattered by fresh rifts, with the result that there is no opposition party left with a national following or countrywide base.

At stake for Mrs. Gandhi is control of the country. When she returned to power in New Delhi in January her Congress Party was in power in only two of the 20 states. In India it is impossible to rule effectively unless the state governments co-operate. Mrs. Gandhi acted decisively to oust them and replace them with her own party.

The elections could also mean a considerable boost for Mrs. Gandhi's controversial son, Sanjay. It is known that Sanjay had a major say in the selection of candidates to be put up by the Congress Party.

In the key states of Uttar Pradesh and Bihar, an overwhelming majority of Congress candidates are Sanjay's nominees. They are mostly in



Mrs. Indira Gandhi

their thirties or early forties and few have contested elections before. Their nomination has meant that the older members have been ignored and these are now disgruntled men.

Sanjay is campaigning as hard as his mother, since victory for him and his nominees would mean that he will finally have a firm political base of his own. What he is attempting is very nearly a "cultural revolution"—to replace old members of the Congress.

Sanjay is not yet sure of a runaway victory, since even from the opposition parties many of the older Congress members have defied the organisation and are contesting the elections as rebel candidates. This could undermine the official Congress candidate. But if Sanjay has his way, a new Congress Party will have been born and Indian politics will enter another era.

New Malaysian Central Bank governor appointed

BY WONG SULONG IN KUALA LUMPUR

THE MALAYSIAN Government has appointed Datuk Aziz Taha as governor of Bank Negara, the Central Bank, to succeed Tan Sri Ismail Ali, who retires in July after 18 years as governor.

The appointment has ended months of intense lobbying. Some leaders of the ruling party, the United Malays National Organisation, wanted a more politically orientated appointee, while the civil service tried to put someone from its ranks into the position.

Finally, Tan Sri Ismail, a powerful and autocratic figure of 61, made it clear he would stay on if someone other than Datuk Aziz was to succeed him. Government officials said, Datuk Aziz, 44, worked in the

private sector as a chartered accountant before joining the bank as an assistant manager in 1971.

Another protégé of Tan Sri Ismail, Dr. Lin See Yan, now the bank's economic adviser, has been appointed deputy governor.

The Central Bank's conservative policies are unlikely to change significantly, although Tan Sri Ismail, the Finance Minister, is now expected to play a bigger role in the formulation of monetary policies.

During his governorship, Tan Sri Ismail built up Bank Negara as the cover for a sound and expanding Malaysian financial system, supporting a strong currency and high foreign exchange reserves.

\$130m aid pledge for Kampuchea

By Our Foreign Staff

FOOD AND AID worth more than \$130m were pledged yesterday at a United Nations conference in Geneva which aims to forestall another famine in Kampuchea.

Dr. Kurt Waldheim, the UN Secretary-General, said in his opening address that a total of \$180m was needed to avert widespread starvation was to be averted during the rest of 1980.

In early pledges, Japan said it would give an extra \$100m, while the United States promised an extra \$29.6m.

S. Africa police crack down on protesters

BY QUENTIN PEEL IN JOHANNESBURG

MORE THAN 100 community leaders, church leaders and political activists in the South African black, coloured (mixed race) and Indian communities are believed to have been detained in the past two days as the South African Government has sought to control a wave of student and worker unrest.

The biggest mass arrest was in Johannesburg, where 300 police detained 52 clergymen marching in protest to the city's police headquarters, calling for the release of the Rev. John Thorne, former secretary-general of the South African Council of churches. He was arrested at his home over the weekend.

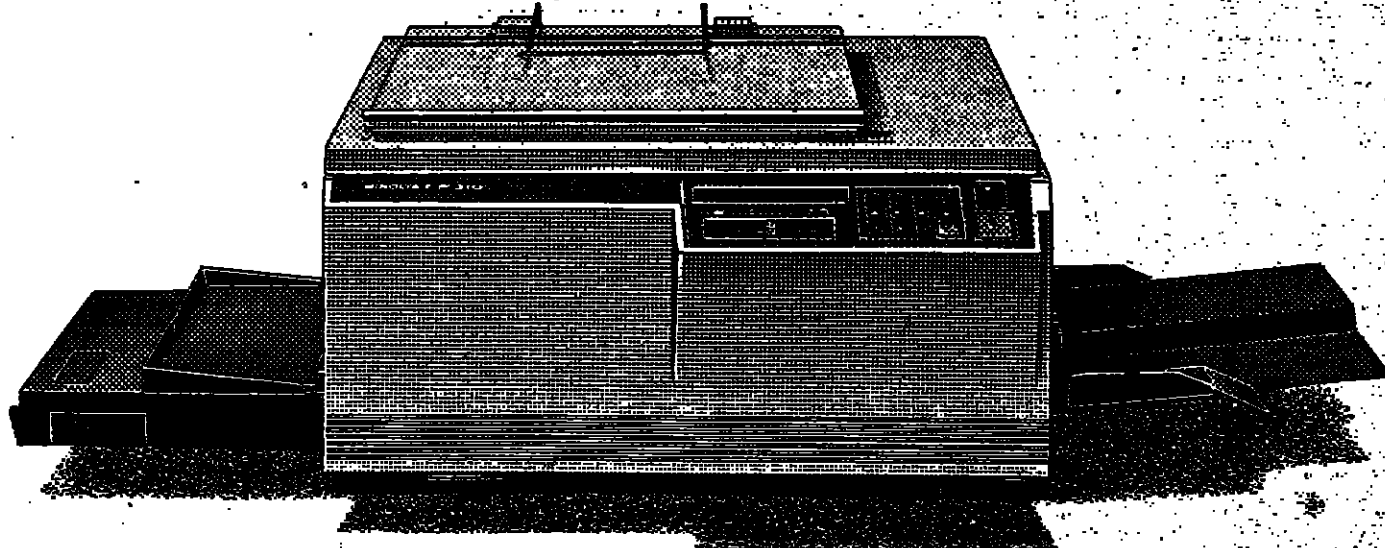
Among those detained were Bishop Desmond Tutu, the present secretary-general of the council and his wife Mrs. Leah Tutu, Bishop Timothy Bayn, the Anglican Bishop of Johannesburg, and the Rev. Joseph Wing, general secretary of the United Congregational Church.

Although police confirmed only a minority of the detentions, yesterday, at least 30 people in the Western Cape, 25 in the Eastern Cape, and three in Kimberley are believed to be held.

The police action follows the most serious confrontation to date in the recent unrest, when riot police broke up a crowd of some 3,000 coloured pupils demonstrating in a luxury Cape Town shopping centre.

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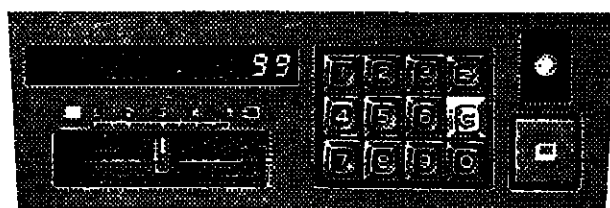
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UK NEWS

Ray Maughan explains why Hong Kong financed an ailing industry

Cut-price gamble on Carpets International

Shop hours legislation reviewed

By Elinor Goodman

THE GOVERNMENT is reviewing the legislation controlling shop opening hours.

However, it is unlikely that the Government will embark on a major revision of the Shops Act even though Ministers acknowledge the present law throws up some extraordinary anomalies.

Instead, some of the anomalies may be cleared up or the findings of the review used to assist any Private Member wishing to introduce a Bill on the subject.

The Government would almost certainly upset its traditional supporters among the small business community if it tried to lift all the existing restrictions on opening hours.

The trade fears that total overhaul of the Act could create more problems by opening up the way to seven-day trading.

Even so, there is considerable pressure from those responsible for enforcing the law to end the confusion, particularly over Sunday trading.

At present, for example, there are restrictions on fish and chips trading on Sundays but not on Chinese restaurants, and it is easier to sell fresh foods on Sundays than canned ones.

Enforcement of the Shops Act is the responsibility of individual local authorities. In many areas the law is not strictly enforced.

Over the years, a number of Back Benchers have tried to introduce Private Members' legislation to clarify the situation without much success.

THE PURCHASE by Hong Kong Carpet Manufacturers of a major stake in one of Europe's largest tufted carpet manufacturers—Carpets International—after one of the now familiar market raids last week by the stockbroking firm of Rowe and Pitman, Hirst-Brown, can hardly be described as investment in a growth industry.

The raid lifted Hong Kong Carpet Manufacturers' holding to 29.9 per cent and it will have to launch a full offer if it acquires any more shares. So far, Mr. Tony Yeh, managing director of the Far East company, has said that the stake is an investment. There is no immediate intention to make a full offer.

The history of take-over bids is littered with such premature "investment" stakes.

Even assuming Hong Kong Carpet Manufacturers really intends to do no more than sit on its shares, the short-term benefits must be open to doubt.

The pragmatic Stock Exchange view is that the Carpets International share price has been

so knocked down and Hong Kong Carpet Manufacturers has been able to buy in so cheaply that it stands to lose very little even if the gamble fails. The rewards of success would be handsome.

The price of 32p per share paid for the 25 per cent holding gives Carpets International a market value of just £7.5m. Shareholders' funds in the December, 1979 balance sheet, by contrast, amounted to over £38m.

The obvious lack of market support indicated by such a vast discount to the value of Carpets International's assets is a reflection of the enormous problems faced by the British carpet industry. As the dominant force within the sector, the Crossley and Kosset carpet manufacturer must bear the brunt of its difficulties: low demand, savage interest rates, the difficulties imposed by invoicing export customers in swollen sterling values, and its corollary of growing import penetration.

Carpets International

probably has about a tenth of the domestic tufted carpets market and its position in a fragmented domestic industry is illustrated by the fact that it employs just under 6,300 people in this country out of a sector total of 28,000.

These numbers, however, have fallen by 10,000 in the last two years and the unions concerned foresee a great deal more contraction.

The Association of Scientific, Technical and Managerial Staffs is particularly concerned. Its carpet industry national advisory committee met during the week at Whitehall College.

Founded in 1956, Hong Kong Carpet Manufacturers appears immune to the worst of these problems. Aimed at the top end of the woolen rug market with a good export business in the U.S., the company is in any case backed by the stable of interests headed by one of Hong Kong's leading businessmen, Sir Lawrence Kadoorie.

Reputedly one of the richest men in the colony, Sir Lawrence runs a range of operations which takes in banking, trade

and textiles with China Power and Light Company at the apex. China Light took a 40 per cent stake in Peninsular Electric Power Company 16 years ago in a venture with Esso to produce electricity for distribution. The venture prospered and expanded to the point where, in 1978, Sir Lawrence negotiated a £100m contract on behalf of the partnership with Babcock International and General Electric in what was then Britain's largest single power station export deal.

High quality woolen rugs, to say nothing of electricity distribution in the colony, are a long way from the fading British carpet industry but Carpets International appears to know its major new shareholders quite well.

Now both parties are united in an attempt to revive a dominant segment of the British tufted carpets market. The odds look long but, as the City knows only too well, Hong Kong Carpet Manufacturers has not had to put too much money down to finance its bet.

Steel Corporation closures may be speeded, says MacGregor

MR. IAN MACGREGOR, chairman of the British Steel Corporation, yesterday warned that plans for steel closures may have to be accelerated because of the deteriorating economic climate.

"The storm clouds seem to

be increasing rather than the reverse," he said before starting a fact-finding visit to the British Steel works at Port Talbot, South Wales.

Mr. MacGregor said the world economic problems had deteriorated even further since the

original time-table had been drawn up for slimming down the British steel industry.

"These problems are going to increase rather than diminish. I would take the view that the problems are going to be much more intense than the plan cope with," he warned.

Asked if the plans may have to be accelerated, Mr. MacGregor replied: "Oh, yes."

Mr. MacGregor, who has said he intends to be "an eight days a week chairman," spent his Bank Holiday Monday touring the Port Talbot plant after arriving from London.

Sir Charles Villiers, the retiring BSC chairman. The two met local management officials, but no formal talks were held with union representatives.

Mr. MacGregor formally becomes chairman in July.

By the end of this year, 5,000 Port Talbot steel jobs will go, with further jobs being cut back over the next two years. Production there and at Llanwern, its sister plant near Newport, is to be halved.

Mr. MacGregor said he had still not had the opportunity to determine whether additional cuts needed to be made. He would be taking a firm decision "after I have ascertained the facts."

The health of British Steel depended on its customers, each of whom had to face problems of maintaining their share of diminishing markets. British Steel Corporation needed to slim down to bring its workforce into line with foreign competition, he said.

Mr. MacGregor said the plans must be implemented as they were originally drawn up. He has already visited the BSC plant at Scunthorpe and today tours Shotton on Deeside, where heavy redundancies have already been made.

Asked if he would soon be meeting Mr. Bill Sims, general secretary of the Iron and Steel Trades Confederation, the main steel union, Mr. MacGregor said: "In due course—when it is appropriate."

The pattern of sales and new orders have been dominated over recent months by the effect of the dispute, which lasted from August to early October last year.

Sales were very depressed in the three months to October but in November and December activity quickened substantially. However, the provisional seasonally-adjusted figure for January this year suggests that

More aid sought for Ulster fuel switch

BY OUR BELFAST CORRESPONDENT

THE GOVERNMENT has run into trouble over its level of assistance to Northern Ireland gas consumers who are being forced to switch to other fuels.

The province's fragmented gas industry, which relies on increasingly expensive naphtha as a raw material, is faced with virtual collapse following the Government's decision against piping natural gas from Scotland.

About 150,000 consumers could be affected by the gradual rundown of the industry.

The Northern Ireland Department of Commerce has proposed meeting half the conversion costs of domestic users and 30 per cent of the costs faced by industry and commerce.

The offer of compensation looks like being the first step in a long battle to secure the highest possible Government aid.

instal a pipeline and it now

Belfast City Council—responsible for the largest gas operation in the province—is expected to press for a big increase in the assistance.

Mr. Victor Brennan, vice-chairman of the council gas committee, said: "The Government has managed to destroy the gas industry by refusing to install a pipeline and it now seems intent on virtually ignoring the consequences of its action."

Conversion costs would cause hardship to householders, many of whom were pensioners, he said. The industrial consumer had been offered totally inadequate help and the costs which industry was likely to incur might lead to further job losses.

The Government has said a pipeline across the northern Irish Sea, costing in the region of £100m, could not be justified.

The province's gas is supplied by 13 separate undertakings,

Recovery in engineering sales 'may prove short'

BY LISA WOOD

THE RECOVERY in sales achieved by the engineering industry at the end of 1979 after the national engineering dispute, may prove short-lived, according to the official magazine, British Business.

The pattern of sales and new orders have been dominated over recent months by the effect of the dispute, which lasted from August to early October last year.

Sales were very depressed in the three months to October but in November and December activity quickened substantially. However, the provisional seasonally-adjusted figure for January this year suggests that

the recovery may have been short-lived.

New orders also peaked in November but declined thereafter and recorded a very depressed level last January. In the home market, higher sales in November and December were followed by a moderate decline in January, and the poor seasonally-adjusted figure for new orders is the lowest monthly level in that month for nearly four years. As a consequence, home orders on hand have fallen.

Exports recovered sharply from the September low, reaching a peak in November, but since then the index has declined.

BL's new car programme aims to cut fuel costs

BY LORNE BARLING

AMBITIOUS Development work to combat rising fuel costs is being carried out by BL.

The work is being undertaken to keep abreast of foreign competitors despite the financial burdens imposed on BL by its existing new car programme, notably the Mini Metro, due to be launched in the late summer.

The work is based mainly on the assumptions that fuel prices will increase two to three times in real terms by the middle to late 1980s, that petrol quality will deteriorate and that liquid petroleum gas (LPG) will be used more widely.

BL technology is trying to reduce average fuel consumption by around 50 per cent by means of lightweight materials such as alloys and reinforced plastics, improved aerodynamics to reduce drag, and high efficiency small capacity engines.

The company has spent upwards of £100,000 developing its Energy Conservation Vehicle (ECV) to prototype stage, which has achieved a performance of better than 60 miles per gallon at a steady 60 miles per hour.

BL sees this vehicle as one of its most important long-range projects, since its mid-range size and economy make it the natural family car for the late 1980s. A new version is to be completed by the end of the year.

The company's investment in the project is extremely small compared to sums being spent on similar vehicles by Volkswagen and others.

BL discussed future funding with the Department of Industry and sounded out other UK car

manufacturers on co-operation, but has met with little enthusiasm.

The company believes it is ahead of competitors in reducing the car's weight while retaining stability and rigidity, but without further support development is likely to be slow.

Overall, BL's objective is to maintain research momentum on several fronts, and is now spending an additional £12m on turning its recently developed 700 cc vehicle proving ground at Gaydon, near Warwick, into a technology centre.

The site, previously a RAF V-bomber base, was purchased in 1977. It has 29 miles of test track, an electro-hydraulic laboratory, hot and cold test rooms, and other facilities. Construction is about to begin on a climatic wind tunnel costing up to £5m.

This will save the considerable cost of sending cars abroad for long periods of test in hot and cold countries.

Another £5m is expected to be approved soon for engine testing facilities there, eventually providing a comprehensive research and test centre for all of the BL car divisions. Around 200 people now work at the centre but this figure will rise to 600 eventually.

Although BL's research covers a wide area, including transmission design, body styling and new fastening techniques such as bonding, it is engine performance which matters most in the efforts to save fuel.

This work is moving towards leaner mixtures of fuel. Higher compression ratios and the constant optimisation of air/fuel ratios through electronic con-

trols have proved encouraging. Work is also taking place in conjunction with Lucas and Warwick University, using micro-processors to cut out four cylinders on a Rover V8 engine when maximum capacity is unnecessary.

Another project, using a concept first proposed by Sir Alec Issigonis, designer of the Mini, covers the use of single and two-speed gearboxes. With fairly large capacity engines and torque converters these are suitable for lightweight cars and could be a major cost saving.

The company has also produced a prototype gearbox, known as the BL Ferbury transmission, which ensures the engine runs at or near its ideal performance and, by offering an overdrive ratio twice as high as normal top gears, field tests are confirming that a 15 per cent overall improvement in fuel economy is obtainable.

Experimental work aimed at reducing normally high fuel consumption during engine warm up, is being carried out on direct injection diesel engines.

Mr. Spen King, deputy chairman of BL Technology, said he believed there would be far wider use of LPG in cars in future, due to increasing sales of gas from the Middle East to industrial countries.

Mr. King also foresaw wider use of robotics within BL for doing repetitive unattractive jobs such as spraying on body undercoats.

However, BL's engineers are painfully aware that competing companies in Europe and the U.S. have funds to develop their ideas, while the position at BL is uncertain.

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INDONESIA'S ASEAN PROJECT GETS UNDERWAY

Japanese set to win £131m contract

BY RICHARD COWPER IN JAKARTA

A JAPANESE company is set to win the contract to build the long-awaited ASEAN (Association of South East Asian Nations) fertilizer plant in north Sumatra. The plant is expected to cost over \$300m (£181m).

The contract to build the 570,000 tonne a year urea plant in Aceh will almost certainly go to one of three Japanese companies which are the only companies to have passed the pre-qualification tender stage. According to Mr. I. R. Hartato, Indonesia's director general of chemicals, the selection of the general contractor will be made in late July or early August. The Japanese companies vying for the deal are Toyo Engineering, Chiyoda Chemical Engineering and Kobe Steel.

Financing for the project will

come largely from Japan which has agreed to provide 70 per cent of the cost through a mix of export credits and a loan. The rest will come in the form of equity. The Indonesian Government—through the state-owned fertilizer company, P. T. Pusri—will hold 60 per cent of the equity while the rest will be divided between the remaining four ASEAN countries. Singapore's decision to participate with only a nominal share of 1 per cent leaves Malaysia, Thailand and the Philippines to take 13 per cent each.

According to Mr. Hartato construction work should start soon after the contract is awarded and the plant is expected to be in commercial production at the end of 1985—some seven years after the pro-

ject was originally proposed. Along with cement, fertilizer has proved to be one of the few undoubted successes of Indonesian industry. From being a major importer of fertilizer in 1972, when the country was producing only 147,000 tonnes a year, production grew steadily to 446,000 tonnes in 1976. Since then with a number of new plants coming on stream production has grown sharply from 913,000 tonnes in 1977 to 2.1m tonnes last year when Indonesia became a net exporter of nitrogen fertilizer. Last year Indonesia exported 200,000 tonnes of urea but this year, largely due to increasing domestic demand, this will drop to around 140,000 tonnes. Though the country soon plans to expand its phosphate and com-

pound fertilizer production Indonesia will for some time remain a net importer. Indonesia's abundant local reserves of natural gas makes it an ideal location for the production of fertilizer, while the fact that over 70 per cent of the country's population still gain a living from the land, means an ever increasing domestic demand. Local consumption grew by 10 per cent a year for much of the 1970s and this year, according to Mr. Hartato, is likely to rise to 15 per cent. Urea, which accounts for nearly two-thirds of the fertilizer applied in Indonesia, is principally used on rice—the nation's staple food, while estate crops like tea, coffee, sugar and rubber use about 15 per cent of all fertilizer applied.

UK goes ahead with exhibition in Seoul

By Charles Smith in Seoul

A MAJOR British industrial exhibition focusing on scientific instruments and teaching equipment opened its doors in Seoul yesterday, in apparent disregard of the political problems facing the country.

The exhibition includes participants from 28 countries ranging from small specialist concerns to major names such as Fyfe, Rascal and Rank Taylor Hobson. Its object is to secure a share of some \$400m worth of orders for scientific teaching equipment, expected to be placed by the Korean Ministry of Education over the next four years.

S. Korea announced a major programme for updating the standards of scientific education at university level and secured a \$100m loan for the purpose from the World Bank late in 1979. The UK hopes to win contracts under the World Bank scheme but plans are also under way to establish a line of credit available only for purchases of British equipment. This could be equal in value to the World Bank loan.

The UK exhibition is sponsored by two industry associations, the Scientific Instrument Manufacturers Association (SIMA) and the Industrial Council for Education and Training Technologies (ICETT).

The plan was reviewed as a matter of urgency at the beginning of last week when martial law was imposed throughout South Korea and the universities closed. It was decided to go ahead with the project in part because irrecoverable investments had already been made and in part as a gesture of confidence.

Parkinson urges Zimbabwe for investment co

BY TONY HAWKINS IN SALISBURY

THE British Trade Minister, Mr. Cecil Parkinson, left Salisbury at the weekend having promised to urge British investors to participate in Zimbabwean development and UK tobacco manufacturers to purchase Zimbabwean virginia leaf.

After spending three days in Zimbabwe meeting Government Ministers, officials and leading representatives of the private sector, Mr. Parkinson urged the Government to establish a "code of conduct" for foreign investors which he believes is necessary to stimulate private sector investment in Zimbabwe. Businessmen in Salisbury are not optimistic about the likely level of private sector investment in the immediate future believing that foreign investors will be reluctant to commit funds to Zimbabwe until they see the policy stance adopted by Mr. Mugabe's new Government.

A rash of public statements by Zimbabwean Ministers over the last few days have heightened business and economic uncertainty. Finance Minister, Mr. Enos Nkala, was

quoted in Salisbury as saying that the Government was "not prepared to be taken for a ride" by foreign investors. He called on "those glacially moving" multinationals to shed "a percentage of their enormous profits in the interests of the country." In the light of these remarks, businessmen in Salisbury are not optimistic about the likely level of private sector investment in the immediate future believing that foreign investors will be reluctant to commit funds to Zimbabwe until they see the policy stance adopted by Mr. Mugabe's new Government.

Mr. Parkinson's groups are interested in Zimbabwean copper and those for rail and expansion of the airport.

World Economic Indicators

	Apr. '80	Mar. '80	Feb. '80
U.K.	240.8	252.2	245.2
U.S.	242.5	239.8	237.2
Italy	180.0	177.2	175.2
W. Germany	115.6	114.9	114.9
Holland	131.4	130.2	129.2
Belgium	140.0	139.7	139.7
France	242.1	239.3	237.2
Japan	132.8	131.6	131.6

UDT in Dutch Export finance joint venture

By Our Amsterdam Correspondent

UNITED DOMINIONS TRUST, the British Finance House, and Royal Nedlloyd, the Dutch shipping and transport company, have set up a joint venture to provide export financing in the Netherlands.

Trade Finance, with offices in Amsterdam and London and initial capital of £1m (£217,000), will offer a "more flexible and more comprehensive form of financing than currently available," said Mr. Bob Beresford, managing director of UDT International Finance.

UDT ultimately also plans to offer similar facilities in Denmark and Spain through subsidiary companies in Copenhagen and Madrid.

Trade Finance offers the exporter cash payment on shipment and coverage of the entire debt risk, allowing companies to improve their liquidity and balance sheet ratios. The importer is given extended credit so that he can negotiate with the exporter on a cash basis and choose the currency in which he finances his order.

China postpones harbour project

BY CHARLES BATCHELOR IN AMSTERDAM

A DUTCH consortium of contractors and engineering companies has given up hopes of undertaking a \$1bn (£438m) harbour construction project in China in the foreseeable future. Work on building a coal terminal at the port of Lien Yung Gang has now been put off and is likely to be carried out largely by the Chinese themselves, the Port and Delta consortium said here.

The Dutch companies have been negotiating for the project with the Chinese for the past two years. They had also hoped in the longer term to gain another major order to deepen the Yangtze Kiang river.

Port and Delta is a joint venture of the contractors Bos-Kalis Westminister, Hollandsche Beton Groep and Volker Stevin. The IEC Holland shipyard would have supplied dredging equipment while the engineering consultants Nedeco were to have carried out the design work. Amsterdam-Rotterdam Bank had been commissioned to form an international banking consortium to lend \$1.2bn (£442m) to China for the project.

The Chinese have not told the consortium that the project has been definitely cancelled.

a Bos-Kalis spokesman said, and the company is still hopeful that it will be carried out at some time.

Port and Delta commented that the postponement of the project confirms that China has now clearly decided to slow down its modernisation drive. It modernises its industry and infrastructure, partly because of the financing problems.

The companies first announced in October 1978 that they hoped to sign a contract for the work "shortly" though the following March it emerged that the Chinese wanted to play a greater part themselves. Last June a senior Chinese official visiting the Netherlands hinted at delays in carrying out the work.

Port and Delta is now discussing the possibility of compensation from the Dutch Economic Ministry for the £1.6m (£1.33m) worth of costs incurred in preparing tenders. Although there are no prospects of any other orders the consortium will not be wound up.

Our Correspondent writes from Georgetown, Guyana: Two Dutch companies, Ballast Nedam and Lareco have been jointly awarded a Guyana

\$104m (£18m) contract for a large drainage and irrigation scheme here.

The Guyanese Government announced that they were selected from 12 international contracting companies, and submitted the lowest bid.

The work will be carried out over three years at the Mahaica - Mahaicony - Abary scheme which is being funded by the Inter-American Development Bank and the Guyana Government. When completed, the scheme will provide flood control for some 146,000 acres.

The project involves a 32-mile main irrigation canal, secondary canals, a 22-mile drainage canal, collector drainage trenches, and pump station, a 5,000-foot spill weir, and 11 miles of all-weather roads.

Consultants for the project are Sir William Halcrow and Partners.

Beralt Tin and Wolfram Limited

Extracts from the statement by the chairman,

Mr. L. G. Stopford Sackville

Wolfram prices in 1979 were generally lower than those in 1978 but this was more than offset by increases in the volume of concentrates produced and sold, and the year ended with satisfactory results.

Financial results

The consolidated profit for the year before tax amounted to £3,961,000 against £3,480,000 in 1978 and, after deducting the charge for taxation and minority interests, profit attributable to members amounted to £2,411,000 compared with £2,126,000 in the previous year. Earnings per share prior to exchange losses in 1979 were 21p compared with 18.5p in 1978.

The year's results include a credit of £331,765 in respect of a provision no longer required for silicosis claims. The Portuguese operating companies have been insuring in full since 1964 against claims for silicosis. In addition a provision had been made to cover compensation awards that might be made to any former employees who contracted silicosis, but who had left the company's employ by 1964. During the course of the year, agreement was reached between Beralt Tin & Wolfram (Portugal) SARL and the Portuguese insurance company, Fidelidade, under which responsibility for paying such compensation has been accepted by the insurers in return for a lump sum payment. As a result of these arrangements all legal liability which may arise from claims for silicosis is now insured. The balance of the provision remaining after taking into account the amount due to the insurers has therefore been credited to the profit and loss account.

A further decline in the value of the escudo against the pound has given rise to an exchange loss on translating the group's Portuguese net assets into sterling at the year-end. Based on the exchange rate at 31 December, 1979 of 111 escudos to £1 against 94 escudos to £1 on 31 December, 1978 the exchange loss amounted to £1,254,740, of which £165,526, being principally in respect of net current assets, has been charged to the profit and loss account and £438,214 relating to fixed assets has been dealt with through reserves.

Dividends

A dividend of 4.5p per share was paid on 28 December, 1979 from funds derived from Beralt Tin & Wolfram (Portugal) SARL's dividend of 120 million escudos declared out of 1978 earnings.

Beralt Tin & Wolfram (Portugal) SARL has declared a dividend of 144 million escudos out of earnings for 1979. Permission is being sought for the remittance of our 80.55% share to the United Kingdom and the board will consider the declaration of a dividend when the funds are received. Because of fluctuations in exchange rates and different taxation conditions applicable, the amount of the dividend cannot be fixed until the funds have been received but if they were to be received now a dividend at least equal to the 4.5p per share in 1979 could be paid.

Beralt Tin & Wolfram (Portugal) SARL

Tonnages produced at Panasqueira during the year showed a marked improvement over those of 1978. Production of wolfram concentrate amounted to 1,783 tonnes compared with 1,450 tonnes in 1978. Production of copper and tin concentrates at 1,318 and 88 tonnes respectively were the highest recorded at the mine. The commencement of mechanised stoping, modifications to the treatment plant and arrangements agreed with the Unions permitting Saturday working all contributed to the improvement in production as also did the higher yield grade of ore encountered in the areas being mined, particularly in the second half of the year.

Copies of the chairman's statement, together with the annual report and accounts, may be obtained from the registered office of the company at 40 Holborn Viaduct, London EC1P 1AJ, or from the transfer office at P.O. Box 102, Charter House, Park Street, Ashford, Kent TN24 8EQ.

The 52nd Annual General Meeting of Beralt Tin and Wolfram Limited will be held at 12 noon on Thursday, 19th June, at Winchester House, 100 Old Broad Street, London EC2N 1BU.

Fifteen days' production was lost during the year through strike action.

Mine development was below target due mainly to shortage of labour and late delivery of new equipment. The ore reserve position, however, remains satisfactory, but steps are being taken in the current year to improve development.

Excavation of the 1,200 metre inclined shaft was completed towards the end of 1979 and it is due to be commissioned next year. The shaft is to be equipped with a continuous conveyor system and will open up level 2 of the Panasqueira ore body for mining.

Sales of wolfram concentrate in 1979 amounted to 1,558 tonnes (compared with 1,452 tonnes in the previous year) which, following the build-up of production in the latter part of year, left stocks at the year-end at a higher level than normal. The Metal Bulletin higher quotation opened in January, 1979 at U.S. \$138 per metric ton unit, rose to a high of U.S. \$151 per unit in June and closed in December at U.S. \$132. The average higher quotation for the year was U.S. \$141.88 per unit compared with U.S. \$147.15 in 1978 representing a decline of 3.58%. In sterling terms, however, after allowing for the depreciation of the U.S. dollar against the pound, the average price declined from £76.64 per unit to £66.86 or a reduction of 12.74%. Prices rose in the first few weeks of 1980 and had reached U.S. \$149 per metric ton unit by mid-April. By then, mine stocks had reverted to normal levels.

Copper and tin concentrates totalling 1,906 tonnes and 83 tonnes respectively were sold in Portugal. The proceeds made a significant contribution to the year's revenue.

The studies to which I referred last year into the feasibility of setting up plant in Portugal for upgrading wolfram concentrates are continuing, but results thus far have been inconclusive.

Minas da Borracha SARL

Production at Minas da Borracha, in which Beralt Tin & Wolfram (Portugal) SARL acquired an 80.50% interest in December, 1978, was in line with that envisaged at the time of acquisition, and the company made a contribution to group profits. Production of wolfram and scheelite concentrates, which are treated and converted on site to ferro-tungsten, totalled 350 tonnes and sales contracts in respect of ferro-tungsten produced were concluded during 1979 on satisfactory terms.

Studies were undertaken during the course of the year with a view to formulating plans to improve both the mining operations and the productive capacity at Borracha.

Primary Tungsten Association

The First International Tungsten Symposium, sponsored jointly by the Primary Tungsten Association and the Consumer Reporting Group, was held in Stockholm in September. Almost 300 delegates representing producers, consumers and other sectors of the industry from some 30 countries participated. Papers were presented and discussed on a wide range of topics, and useful progress was made towards a better understanding of tungsten and its uses and the need to avoid recurrence of chaotic supply and demand situations which, in the past, have so often affected this important commodity.

Outlook

The present year, 1980, has opened well. Scheduled production at the mines during the first four months has been reached, and average wolfram prices have remained relatively firm. I think we should see satisfactory results in 1980 provided production levels can be maintained and the market remains stable.

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UK NEWS

'Name starvation wage companies,' MP tells Nott

BY PHILIP RAWSTORNE

MR. JOHN NOTT, Trade Secretary, will face determined pressure from Labour MPs in the Commons next week to publish the names of 33 British companies operating in South Africa who are paying black workers less than subsistence wages.

Mr. Michael Meacher, a former Labour trade minister, claimed yesterday that the Government's decision to withhold the names was encouraging breaches of codes of conduct on employment conditions in South Africa drawn up by both the EEC and by a Commons all-party select committee.

In the past three years, the number of British companies paying starvation wages to black workers had increased fivefold, he said.

About 2,000 workers were now involved, compared with about 700 in 1977.

About 50 British companies were paying wages below the minimum level recommended by the EEC code to more than 20,000 employees.

Mr. Meacher said that virtually no progress had been made by many British companies on other recommendations of the Commons committee concerning African trade union rights and discrimination.

It is incredible in such a situation that the Government should decide not to publish the firms involved. The whole purpose of the exercise was to use the force of publicity to improve conditions for black workers in British-owned companies."

Mr. Meacher has tabled Commons questions to Mr. Nott demanding the names of the 30 companies paying wages below the EEC-recommended level and the 33 companies paying less than subsistence wages.

He will also question the Government about action taken against companies who failed to provide it with information about their pay and conditions for black workers.

Mr. William Rodgers, Labour MP for Stockton and chairman of the Commons committee which drew up the code of conduct, said he would press the Government about its apparent defiance of the all-party recommendations.

The Commons committee had said it was vital that companies should expect continuing publicity and the decision to keep them out of the spotlight was deplorable.

In spite of the Labour protests, Mr. Nott is said to adhere strongly to his view that private pressure on companies is likely to bring more rapid improvements than further publicity.

A Department of Trade spokesman claimed yesterday that the Government already published more information than most of its EEC partners.

Although the Government had decided not to name the companies which the Department's analysis suggested still failed to meet minimum standards, it was pointed out that any member of the public could inspect individual company reports submitted to the Department on their employment conditions.

Merchant shipping fleet decline almost ended

BY WILLIAM HALL, SHIPPING CORRESPONDENT

THE UK merchant shipping fleet fell by 6.2m dead weight tons in 1979, its sharpest drop since the Second World War. However, the General Council of British Shipping (GCBS) believes that the sharp decline in the UK fleet has almost ended.

In the past four years, the UK shipping fleet has fallen by 14.5m dwt to 36.6m dwt, mostly because of the

serious recession in world shipping. The GCBS 1979/1980 report says that the decline is "bottoming out" and that the fleet has actually increased.

It emphasises that the changing size and shape of the UK and NATO shipping fleets has important defence implications. It warns against relying on the shipping fleets of "unfriendly countries" (an obvious reference to

the Soviet Union) which may erode the medium-term availability of the UK merchant fleet.

British shipping companies have started to order ships once again and the GCBS notes that, at the beginning of this year, UK shipping companies had 1.8m dwt of new ships ordered, of which 0.7m dwt was ordered in the UK.

But the GCBS argues that if the UK merchant shipping fleet is not to decline further more ships should be ordered.

It is seeking reintroduction of the investment allowance scheme which last operated between 1954 and 1966.

It says that owners' financial resources have been seriously depleted by many years of recession.

Fresh sign of market depression

THE NEWS that Gotaas Larsen had laid up two of its Very Large Crude Carriers (half its VLCC fleet) is fresh evidence of the depression in the super-tanker market, writes William Hall.

More shipowners are likely to follow Gotaas Larsen and lay up their ships. A few have been attempting to deploy their Very Large Crude Carriers as storage ships but earnings are very poor.

Shipbrokers John I. Jacobs report that a 280,000 tonner was fixed for short term storage recently at \$8,500 per day while a 92,000 tonner was fixed for storage at \$17,500 per day.

With oil prices continuing to rise there appears to be an increasing demand for oil tankers for storage.

Davies and Newman says 5.9m dwt of privately-owned tankers were being used for storage purposes at the beginning of May compared with 5.4m dwt laid up.

Among smaller tankers the position is healthier which is reflected in the heavy orderbook of tankers of between 60,000 dwt and 80,000 dwt.

However, with the latest phase of the deepening of the Suez Canal to be completed by October, tanker operators are starting to look for slightly larger tonnage.

One of the last maritime entrepreneurs

ADRIAN SWIRE, who takes over as president of the General Council of British Shipping tomorrow, is one of the last maritime entrepreneurs left in the UK.

Although he is not in the same league as Hong Kong's Sir Y. K. Pao or C. Y. Tung, who between them control well over 30m dwt of shipping, the family company of John Swire and Sons, is a household name in the Far East even if relatively unknown in the UK.

The first John Swire was a Liverpool textile merchant who went to China in 1866 to seek his fortune, and set up the Far Eastern trading house of Butterfield and Swire in Shanghai. A few years later he extended his Chinese interest by establishing the China Navigation Company to provide shipping services up the Yangtze river and along the Chinese coast. Very soon China Navigation

Swire's other Far Eastern trading interests. However, the Second World War intervened and a large part of the family fortune was lost. More than half of Swire's shipping fleet was sunk and the family's Hong Kong dockyard and sugar refinery were left in ruins. The group's Chinese river and coastal trades disappeared, as did its extensive property interests in China which included a Tientsin lightering company and a Shanghai paint works.

Over the last 30 years the family fortunes have been revived. In the 1970s the majority of the Swire Group's Hong Kong interests (its most important asset), were transferred to Swire Pacific, one of the biggest and most respected "Hongks" or trading houses, in the colony. It is publicly quoted with a market capitalisation of \$220m and substantial interests in everything from property and hotels to Cathay

WILLIAM HALL reviews the background of Adrian Swire, British shipping's new leader.

Pacific Airways.

However, while rival trading houses such as Jardine Matheson and Wheelock Marden are now very firmly based in Hong Kong, John Swire and Sons Ltd, which owns around a third of Swire Pacific, remains very much a British family firm.

John Swire, the chairman, and brother Adrian, the deputy chairman, are the fifth generation of the family. They were both educated at Eton and University College, Oxford. They run their overseas empire from a shabby office block in the City of London.

Despite the fact that the British shipping industry's pleas for special treatment went unheeded in the last Budget, Mr. Swire firmly believes that under the present Government a

climate in which shipping entrepreneurs can flourish is being created.

Certainly, the industry could do with a few entrepreneurs to revive its flagging fortunes. Britain still has the fourth biggest shipping fleet in the world, but only just. Over the last four years its size has tumbled from 50m dwt to 36.6m dwt.

Like every president of the General Council, Adrian Swire sees one of his main duties as beating the drum in high places about the contribution of the UK shipping industry.

In August he will lead a council mission to China to discuss terms of trade, allocation of cargoes, opportunities for shipping, and possible joint ventures. It will also sound out

about establishing a UK-China maritime agreement.

However, Mr. Swire's appointment to the presidency of the General Council also underlines the slightly mysterious relationship between the UK and Hong Kong shipping fraternities. Traditionally, Swire has built most of its ships in Britain and registered them under the UK flag.

By contrast the major Hong Kong shipowners, Sir Y. K. Pao, C. Y. Tung and Frank Chao, have built most of their ships in foreign yards and registered them under flags of convenience.

Over the last decade the Hong Kong controlled shipping fleet has mushroomed, and according to Sir Y. K. Pao now totals 45m dwt, more than a fifth bigger than the UK fleet.

The Tung group has taken over Furness Withy, and Sir Y. K. Pao and Frank Chao could easily afford P & O and Ocean Transport.

EEC gives £1m for canal development

BY LYNTON McLAIN

BRITAIN'S FIRST major canal development for half a century, the Sheffield and South Yorkshire Navigation, has received a grant of more than £1m from the EEC, for civil engineering work to be carried out this year.

This is the second time the EEC's European Regional Development Fund has provided aid for the scheme. In March, the fund gave the owners, the British Waterways Board, a grant of £242,000.

The improvements in the Sheffield and South Yorkshire Navigation canal were given the go-ahead by the former Labour Government in September 1978 as a £10m scheme spread over six years. Most of the money is coming from the National Loans Fund, but £1m is to be granted by South Yorkshire County Council.

The project, to be completed by about 1984, will give a through-route for barges of up to 400 tonnes from Goole on the east coast to Rotherham. At present, barge traffic is limited to 90 tonne capacity vessels upstream of Doncaster.

Barges of up to 700 tonnes

capacity will be able to travel as far as Mexborough when the canal development is completed.

Most of the work involves civil engineering, but a completely new canal lock is being built at Sprotborough Lock, South Yorkshire. This, with other developments in locks on the canal, will help reduce by one and a half days the journey from Goole to Rotherham.

Complete barge convoys will be able to move through the locks without the need for separate handling. This will also reduce fuel consumption and labour requirements.

The state-owned British Waterways Board is basing much of its case for the future development of Britain's canals on the Sheffield and South Yorkshire Navigation.

The Board is expecting to carry 2m tonnes of bulk and general freight on the canal when the development is finished, compared with last year's total of 330,000 tonnes.

Most of the shipments are bulk coking coal. But the Board is anxious to develop general goods traffic.

Go back to grass roots, urges Co-op president

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

THE FUTURE of the co-operative movement as a major High Street retailer depended on a return to the movement's traditional grass roots ideas and philosophy, the new president of the Co-op Congress said in the Isle of Man yesterday.

Mr. Harry Bailey told delegates that he believed the movement had "lost its face, idealism, and compassion, and forgotten its purpose."

He said that with "probably the worst Right wing Government this country has seen in this century," it was up to the Co-op movement to improve the standard and quality of life for people at a local level.

His speech highlighted the

Co-op's present dilemma—whether it should merge the present independent retail societies with the Wholesale Society to form a new national Co-op to stem the trading decline.

This proposal to form "Co-op GB" will be debated at the Congress today.

Mr. Bailey warned delegates that the Co-ops' trading position in the 1980s would continue to be difficult.

He added: "Unless we unite in the battle, I fear that early next century, or possibly before, the Co-operative movement will be merely a page in the history books."

Heavier lorries 'threaten bridge structures'

HEAVIER LORRIES would have an "extremely serious" effect on road bridges in Britain, the Transport Department has said in evidence to the Armitage inquiry into lorries and the environment, writes Lynton McLain.

The European Commission wants to raise the maximum permitted weight of laden lorries to a uniform 44 tonnes gross in all member States.

The current maximum limit in Britain is 32.5 tonnes, and unless steps were taken to safeguard British bridges, the consequences would be "costly," the Government says in its evidence. Repeated overloading of bridges would speed up the deterioration of bridge structures, it says.

The heavier axle loads which

would be permitted under the European Commission draft directive COM (78) 728, published in January 1979, could too have an adverse effect on underground structures such as "culverts, sewers and electricity sub-stations built under roads."

The Armitage inquiry is expected to finish its report later this summer.

Meanwhile the Transport Department has appointed the consulting engineers Husband and Company to assess the work that would need to be done by local authorities to Britain's 65,000 brick and masonry arch bridges, and 35,000 metal bridges, to safeguard structures in the event of Armitage recommending a rise in the maximum permitted lorry weights.



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UK NEWS

NATIONAL INSTITUTE REVIEW

Britain faces longer
road to recovery

BY ANTHONY HARRIS

THE WORLD recession which is now imminent will be "neither protracted nor severe," according to the quarterly forecast from the National Institute for Economic and Social Research.

However, this relatively optimistic forecast for output, compared with other forecasts, implies high figures for inflation, and large balance of payments deficits, especially in West Germany and Japan. In the UK an unprecedented squeeze on profit margins outside the oil industry is expected to impede recovery for some years.

The National Institute Review describes the coming recession as a "period of adjustment" in which to correct trends in the early months of this year, when production ran ahead of demand and spending outpaced incomes.

In the U.S., where the adjustment is already seen as underway, the Review believes that the downturn should be over before the end of the year if monetary policy is relaxed. The report was written before the announcements of easier credit by the Federal Reserve Board last week. For the year as a whole, output is expected to fall by 1 per cent, followed by a rise of 2.5 per cent next year.

For Europe, apart from the UK, the worst of the slowdown will be deferred until 1981, but even in that year some growth is forecast. In all OECD countries except Italy, for the main industrial countries as a group, the growth of industrial output is forecast to fall from 5.1 per cent in 1979 to 1.7 per cent this year and 2.6 per cent next year.

While the weakening labour market is already thought to have checked the pace of wage increases in some OECD countries, wholesale and retail prices accelerated. The analysis suggests that over half the four per cent rise in consumer prices in the OECD countries in the first quarter was directly attributable to energy prices. Some other primary costs and public charges also increased.

"The effects of all these factors should moderate as the year passes," says the review, "but we now expect the total increase in consumer prices in the OECD area to be about 13 per cent this year, though by 1981 it may be back to the 1979 rate of rather less than 10 per cent."

For individual countries the inflation forecasts for this year range from five per cent in West Germany and 5.5 per cent in Japan to 12.8 per cent in France, 14 per cent in the U.S., 18.5 per cent in the UK, and 20 per cent in Italy.

Next year the figures are expected to fall to 4 per cent in West Germany, 5.5 per cent

in Japan, 10 per cent in the U.S. and France, 15.5 per cent in the UK, and 17.5 per cent in Italy.

Although commodity prices are now soft, and are unlikely to become firm until the second half of 1981, it is thought that for 1980 as a whole the level will be 12 per cent higher than last year, because of the very high levels achieved in the speculative boom in the early weeks of the year.

Next year the rise is seen as much lower. It is assumed, on the other hand, that oil prices,

cast recession and some signs of protectionism. While import demand will be sluggish in the developed countries, and at a standstill in Iran, the Institute expects very sharp increases in imports by the oil producers—by 20 per cent in volume in 1980, and 15 per cent in 1981. A further sharp increase in imports is also foreseen in the fast-growing non-oil developing countries of East Asia and the Middle East.

As a result, world trade in manufactures is expected to grow by 54 per cent this year—somewhat faster than in 1979—and by 44 per cent next year.

The Institute's forecast for the UK is dominated by the virtual collapse expected in the trading profits of industrial and commercial companies, apart from the oil companies. The combined effects of sustained wage pressure and a high exchange rate are expected to reduce gross profits from an average of nearly £15bn in the last three years to £4.5bn in 1980 and £2.5bn in 1981. When inflation is taken into account, this average is less than a quarter of the previous cyclical low in 1974-75.

Although the forecast financial deficit of these companies is not thought likely to deteriorate so dramatically, due to sharply reduced stockbuilding, a cut in capital investment, and the growth of equipment leasing, their borrowing is put at £10.1bn for both this year and next—both figures near the crisis peak of 1974 in real terms.

The review says that these financial pressures on companies "might not be sustainable, and draws attention to the fact that the distortions which have built up in the UK economy are now cumulatively so great that the behavioural models on which its forecasts are based must have become questionable."

It therefore considers two possibilities reflecting some possible change in economic management—either a fall in the exchange rate, or a break in the previous success of the trade unions in keeping wages rising broadly in line with consumer prices.

It concludes that while a change in the exchange rate would have little lasting effect on real activity, a change in wage behaviour would improve profitability and lower inflation immediately while real incomes could be protected by fiscal expansion.

However, the review concludes that such a change is unlikely to be produced by monetary restraint, or by the resultant rise in unemployment or the pressures on company liquidity. Only a reform of wage bargaining would achieve the necessary result.

UK OUTLOOK

	Real GDP (% change, year/year, 1975 prices)	Real personal disposable income (% change, year/year)	Unemployment (% change, million)	Money supply (% change in sterling M3, fiscal years)	Consumer prices (% change, year/year)	Current account balance (year, £bn)	Public sector borrowing requirement (fiscal year, £bn)
1978	3.0	6.6	1.28	11.4	8.6	0.9	9.3
1979	1.7	6.0	1.23	10	12.0	-2.4	9.1
1980*	-1.1	2.1	1.60	9	17.2	-2.6	7.9
1981*	0.6	1.2	1.56	8	14.9	-1.3	8.0

* Great Britain, wholly unemployed, excluding school-leavers. * Forecast.

Science goes to the aid
of industrial materials

BY DAVID FISHLOCK, SCIENCE EDITOR

SCIENCE and technology have been highly successful in preventing serious shortages in industrial materials.

Despite the growing population, shortages have failed to materialise because of new materials or new ways of processing existing materials.

The price includes greater use of energy, or use of fuel as feedstock for replacement materials.

These are the conclusions of a report from the National Institute of Economic and Social Research on the supply of industrial materials.

It finds, from a study of about three dozen new materials, "basis for the hope that progress will overcome possibly emerging scarcities."

The paper, by Mr. G. F. Ray, acknowledges the pessimism of forecasts such as Limits to Growth, a decade ago. The work of these forecasters, although criticised "has the merit of alerting the public to resources problems (preceding OPEC who did the same thing in a dif-

ferent manner a couple of years later."

The pessimists generated a debate in which there were some who advocated stopping economic growth and "have no further confidence in continuous future technological development."

On the other side were "a good number of scholarly studies taking the opposite view and emphasising the importance of technological progress."

In some cases technological progress had accounted for half or more of past increases in output per head in industrialised countries, says Mr. Ray.

New materials examined in the report include the use of glass fibre for communications. In the next two decades it may be economic to recover copper used for telecommunications and replace it with optical glass fibre made from sand.

Mr. Ray cites Germany's success in the Second World War at substituting scarce materials. Germany ended the war with larger stocks of copper, tin,

manganese and nickel than it held in 1939. It had cut the amount of copper needed by a submarine from 56 to 28 tons, and in a locomotive from 2,300 kilograms to 287 kilograms.

The concept of reserves of a material is a dynamic one, says Mr. Ray. As reserves are exploited new areas are explored, new deposits found and added to reserves.

With the sole exception of tungsten, world reserves of minerals and metals in 1976 were higher—sometimes many times higher—than in 1950, despite the high rate of exploitation of the previous 25 years.

Mr. Ray says: "No one has yet found it necessary to know the absolute limit of resources; producers of minerals are satisfied if their known reserves cover the next ten or twenty years' requirements. No one has been motivated to invest in exploration for additional reserves which may not come into production before the next generation."

Bus fares up in
Eastern counties

BUS FARES throughout East Anglia went up by between 9 and 23 per cent at the weekend. The increase, which will put an extra 25p on some journeys, the second introduced this year by the Eastern Counties Bus Company who say the extra revenue is needed to meet inflation and the rising cost of fuel.

Public Works Loan Board rates

Effective from May 17		Quota loans repaid		Non-quota loans A* repaid	
Years	by EIP†	A†	maturing by EIP†	A†	maturing
Up to 5	144	144	144	144	144
Over 5, up to 10	144	144	144	144	144
Over 10, up to 15	144	144	144	144	144
Over 15, up to 25	144	144	144	144	144
Over 25	144	144	144	144	144

* Non-quota loans B are 1 per cent higher in each year than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payment of interest only.

Telecom
CUSTOMER
NEWS

A bulletin from
British Tele-
communications:
part of the Post
Office.

With 27 million telephones, 90,000 telex lines and 70,000 computer data-links, Britain's telecommunications system is already one of the largest in the world. But during the next ten years, it's going to get a lot bigger. By 50% in fact.

Last year we provided no less than 2 million new telephone lines to our customers, but even that couldn't keep pace with the demand. Furthermore, the introduction of the new Prestel viewdata service, which will bring useful information right to your TV screen, shows how technology can help people in new ways.

Add to all this the continuing expense of maintaining such a vast system, and the cost of replacing equipment which has reached the end of its working life, and you have a capital investment bill of huge proportions.

The cost of
increased efficiency

To meet these needs we have planned a massive action programme which calls for an expenditure of £1,500 million every year for the next five years; that is to say, over £4 million a day, every day until 1985. We shall keep the pressure up for at least another five years after that.

We will be installing 174 new electronic exchanges, including the first of our revolutionary System X exchanges and small digital exchanges, by the end of this year. So far during 1980, we have already brought 56 new electronic exchanges into service. In the last 6 weeks new exchanges have been brought into service in Ashcott, Broadwindsor, Colindale, Doncaster, Dungeness, Harrow, Manchester, Merle, Potters, Penmaenmawr, Slives, Ulley and Witheridge.

7,800 additional engineers have been recruited and trained, to speed up the installation of new phones and clear faults quickly.

Planning to be
the best

The detailed planning involved in a 10 year programme of this magnitude would fill a small library, but its aim is simple. By the end of it we expect to see a telecommunications system not only considerably larger but as efficient as all the resources of modern technology can make it. As Peter Benton, our Managing Director, has said: "We intend to have only one quality of service for all our customers—first class."

PRODUCT FORUM
The Compact
Telephone

Smaller and neater than a standard phone and ideal for narrow shelves or ledges because the bell unit is separate and can be fitted to a skirting board or supplied as a matching shelf. This lightweight instrument is available in light grey, bright blue or mid-brown (cord and bell unit in grey only). As a replacement for an existing telephone, the Compact carries only 70p additional quarterly rental, plus a £5 connection charge (excluding VAT).

For further information about the Compact phone, please dial 100 and ask the operator for Freephone 888. For information about any other aspect of British Telecommunications services, please telephone 01-631 2132.

British
TELECOM

UK NEWS

FT GROCERY PRICES INDEX

Surprise jump in May brings 2.3% increase

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

THE Financial Times Grocery Prices Index rose sharply in May due to higher prices for meat, fresh fruit and vegetables, and bread.

The May index rose by 2.3 per cent to reach 128.79 — the highest monthly increase for almost a year.

The sharp rise was a surprise but the impact of the recent fine spell has clearly not yet been felt in the shops.

The fresh fruit and vegetable section of the basket, therefore, increased from £275.73 to £291.70.

The FT Grocery Prices Index, which shows the trend in food prices rather than acting as an absolute indicator, is based on data collected each month by 25 shoppers who monitor the same list of 100 items in the same shops.

The 21p per loaf implemented by the big bakers earlier this month led to the bread, flour and cereals section of the basket rising from £279.97 to £292.85.

Cereals were generally dearer in the shops monitored, as were

most biscuits and cakes. Meat also cost more, mainly due to an increase in the price of beef and lamb. This section cost £540.73 this month, compared with £534.58 last month. The J. Sainsbury supermarket chain is holding a special

British Bacon promotion over the next four weeks.

The FT grocery prices index is copyright and may not be reproduced in any way without consent. Inquiries should be made to Lucinda Wetherall at the Financial Times.

FINANCIAL TIMES SHOPPING BASKET

MAY, 1980

	May	April
Dairy produce	625.47	621.72
Sugar, tea, coffee, soft drinks	194.48	194.82
Bread, flour and cereals	292.85	279.97
Preserves and dry groceries	102.35	100.11
Sauces and pickles	48.72	48.23
Canned goods	187.28	185.57
Frozen foods	224.36	221.95
Meat, bacon, etc. (fresh)	540.73	534.58
Fruit and vegetables	291.70	275.73
Non-foods	230.16	224.96
Total	2,738.35	2,671.44

Index for May: 128.79

1979: January 108.54; February 108.45; March 109.12; April 110.88; May 113.59; June 116.02; July 114.79; August 114.16; September 114.17; October 114.95; November 116.34; December 118.74.

1980: January 120.47; February 122.32; March 124.18; April 125.94; May 128.79.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
June 3-7	International Materials Handling (021-705 6707)	NEC, Birmingham
June 6-14	Fine Art and Antiques Fair (01-385 1200)	Olympia
June 8-11	Sunday Times Business to Business Exhibition (01-407 4066)	Earls Court
June 10-12	June Carpet Fair (01-236 0911)	Kensington, WS
June 10-13	Institute of Housing Annual Conference and Exhibition (01-242 3267)	Exhibition Centre, Harrogate
June 11-14	Photo-Sound 80 (0232 32830)	Kings Hall, Belfast
June 14-22	International Job Fair — OPPORTUNITIES (021-705 6707)	Earls Court
June 16-20	International Solid Waste Congress and Exhibition (01-550 5324)	Wembley Conference Centre
June 24	Intel Microcomputer Fair (0793 26101)	Wembley Conference Centre
July 1-3	Energy Show (01-537 3636)	Curran International Hotel, W
July 1-3	Temperature Measurement and Control Exhibition and Conference (0822 4671)	Wembley Conference Centre
July 6-10	Autumn 80 Lightshow (02458 396)	NEC, Birmingham
July 8-10	Great Yorkshire Agricultural Show (0423 61536)	Harrogate
July 9-6	Royal Tournament (01-530 6009)	Earls Court
July 11-20	Taste of Asia Exhibition (01-272 4287)	Olympia

OVERSEAS TRADE FAIRS AND EXHIBITIONS

May 26-30	International Rubber and Plastics Exhibition (021-705 6707)	Singapore
May 27-30	Petroleum and Marine Environment International Conference and Exhibition	Monte Carlo
June 3-6	Reprographics Exhibition—REPROGRAPHICS 80	Basle
June 5-9	International Carpet and Floor Coverings Exhibition (01-439 3964)	Paris
June 9-14	BIAM—International Machine Tool Exhibition	Zagreb
June 10-14	Educational Equipment Exhibition—VISODATA (01436 1051)	Munich
June 17-19	Advanced Communications Exhibition—EURO-COMM 80 (01540 1101)	Copenhagen
June 19-22	Solar Energy Exhibition	Genoa
June 23-26	World Frozen Food Exhibition (01-629 8817)	Monte Carlo
June 23-26	ASEE Educational Resources Exhibition (01-437 0678)	Massachusetts
June 24-27	International Solar Forum (02013 4450)	Hamburg
June 28-July 4	International Welding Exhibition (01-278 0281)	Brno
June 28-July 6	Motor Show, Components and Accessories Exhibition	Brno
July 14	Latin American Oil Show (01-222 0466)	Rio de Janeiro
July 2-6	Audio Visual Exhibition AUVI (021-705 6707)	Singapore
July 7-11	International Training and Educational Symposium and Exhibition—INSTRUCTA (01-486 1951)	Johannesburg

BUSINESS AND MANAGEMENT CONFERENCES

May 27-30	Scotwork: Managing Negotiations (041-204 2186)	Hampshire
May 27-28	Reinforplast: 1980 Symposium	Brussels
May 28	Calus: The Taxation Implications of Development (0734 861101)	Mount Royal Hotel, W1
May 29-30	ICHCA: Developing Efficient Cargo Handling Systems for International and Intra-Regional Trade (01-528 3611)	Athens
May 29-30	Frost and Sullivan: Electronic Mail (01-486 8377)	Cumberland Hotel, W1
June 1-6	University of Bradford: Production Scheduling Workshop (Bradford 491773)	Heaton Mount, Bradford
June 2-3	FT Conference: World Banking (01-621 1355)	Singapore
June 2-3	AMR International: U.S. Financial Reporting and Disclosure Requirements for Multinational Corporations (01-262 2732)	Grosvenor House, Hotel, W1
June 4	Gower: Conference: Business Strategy for Strong Sterling (01-242 3485)	Royal Lancaster Hotel, W2
June 4	CCC: Company Pension Rights—Consequence of Employees Changing Jobs (01-222 6362)	Tara Hotel, Kensington
June 4	IDHE: Strategy for Survival (03745 54266)	75 Mark Lane, EC3
June 5	TCC: Training for Change in the Eighties (0865 512784)	Mayfair Theatre, W1
June 5	Oyez: Successfully introducing and using current cost accounts in your company (01-242 2481)	Inn on the Park, W1
June 5-6	AMD: Improving Results through Time Management (07535 56047)	Royal Garden Hotel, W8
June 8-13	Brunel University: Experimental methods for management training and development (0895 56461)	Uxbridge
June 9-10	AMD: Communication and Confidence Development for Managers (07535 56047)	Gloucester Hotel, SW7
June 10-11	INFOTECH: Which Word Processor? (0628 39101)	Tara Hotel, Kensington
June 11	Institute of Management Services: Staff Appraisal and Development (01-363 7452)	Mount Royal Hotel, W1
June 11-13	AMR International: The Management of Projects (01-262 2732)	Browns Hotel, W1
June 13-14	PCL: Technology and Adjustment to Change at Firm Level — German Swedish and UK experience (01-456 5811)	Marlybone Road, NW1
June 14-16	Cityforum: Capital Flows (0225 63573)	Interlaken
June 17	Eurex: Information, trading and confirmation system for Eurobonds (01-628 8787)	Great Eastern Hotel, EC2
June 17-18	ASM: Current Cost Budgetary Control (01-385 1982)	Europa Hotel, W1
June 24	Oyez: Pensions in the private sector (01-242 2481)	Carlton Tower, SW1
June 26-27	AMR: Banking and Finance in the Middle East (01-362 2732)	London Press Centre, EC4
July 1	Spicer and Pegler: The office of the 80s (01-283 3685)	Great Eastern Hotel, EC2

Financial Times Conferences

WORLD BANKING CONFERENCE

Singapore, June 2 and 3, 1980

The Chairmen at this important annual event will be Mr. Michael McWilliam, Deputy Group Managing Director, Standard Chartered Bank Limited, London and Mr. Jose B. Fernandez, Jr., Chairman of the Board, Far East Bank and Trust Company, Manila. Mr. S. Dhanabalan, Singapore Minister of State for Foreign Affairs will be the opening speaker bringing to bear on the subject matter his current foreign affairs responsibilities and his earlier experience as a banker.

AEROSPACE INTO THE EIGHTIES AND BEYOND

London, 26, 27 and 28 August, 1980

Mr. H. W. Withington, Vice-President, Engineering, Boeing Airplane Company; Mr. Sanford N. McDonnell, President and Chief Executive Officer, McDonnell Douglas Corporation; Mr. Robert J. Carlson, President, Pratt & Whitney Aircraft Group, and Mr. Gerald J. Tobias, President, Sikorsky Aircraft, will be giving their views on the U.S. Aerospace industry in the next decade. The conference will be arranged by the Financial Times and the Royal Aeronautical Society.

All enquiries should be addressed to:

Financial Times Limited
Conference Organisation
Minster House, Arthur Street
London EC4R 9AX

Tel: 01-621 1355
Telex: 27347 FTCONF G
Cables: FINCONF LONDON

LABOUR

Health union chiefs plan firm pay stand

BY PAULINE CLARK, LABOUR STAFF

HEALTH SERVICE union leaders plan a firm stand against any Government attempt to impose a 14 per cent pay settlement in the face of the recent 31.4 per cent award to doctors.

A row over pay affecting two hospital employees' groups—the 420,000 nurses and the 50,000 administrative and clerical staff—is said by unions to be unavoidable in the weeks ahead.

Nurses' union leaders will resume pay negotiations today with a demand for a pay rise of at least 18 per cent. This is in line with the inflation award recently made to doctors on top of their 10 per cent "catch up" increase.

The National Union of Public Employees said that normally hospital administrative and clerical staff had their wages determined by linkage with Civil Service pay awards.

In spite of wage increases of up to 22 per cent for comparable Civil Service grades, however, union leaders representing the group had been warned that this year cash limits must take precedence.

Mr. Patrick Jenkin, Social Services Secretary, last week made it clear that the 14 per

cent cash limits would continue to apply to health service workers who had not yet completed pay negotiations.

To the nurses, whose annual settlement is now nearly two months overdue, he said that pay awards to doctors and nurses in the last two years had been almost identical.

He said the Government view was that both were in the second year of a "catching up" period.

After the nurses' 19.6 per cent average award from the Clegg Commission, both groups are viewed by the Government as having had virtually the same increases between April 1978 and April 1980.

Nurses unions who in previous negotiations have implied acceptance of a 14 per cent increase—although agreement has not been reached on distribution—have warned since the doctors' award that they may now back a bigger claim with industrial action.

The Royal College of Nursing, normally the most moderate of the nurses' unions, voted overwhelmingly at its conference last week to ballot 165,000 members on whether its constitution should be changed to allow industrial action.

Tough line on lunch supervision

BRITAIN'S biggest head teacher union yesterday pledged full backing for heads who decide to shut their schools during the midday break if they think the period cannot be properly supervised.

The 21,000-strong National Association of Head Teachers approved a national council policy statement aimed at tackling lunch-time problems.

More and more classroom teachers have decided to opt out of voluntary midday supervision, and Government legislation on school meals which is creating a growing army of "sandwich children," has made matters worse.

● ROBB CALEDON: Union opposition to the rundown of Dundee's Robb Caledon Shipyard is crumbling. Nearly 250 workers have called for voluntary redundancy. Around 200 men have already left the British Shipbuilders yard, where employment is to be reduced from 350 earlier this year to 350 by mid-summer.

● AIRPORT SHUT: Thousands of holidaymakers arrived at Luton Airport yesterday to find it closed—25 flights had to be transferred. All flights stopped when only four of the airport's fire crew turned up for duty. The airport's manual workers are working to rule in support of a national wage claim.

● The National Graphical Association said yesterday that interim agreements on its demand for an £80 minimum earnings level for provincial members in the general printing industry were "virtually tied up."

Journalists to join print merger talks

BY OUR LABOUR STAFF

JOURNALISTS' union leaders have agreed to start merger talks with two leading printing unions.

The 30,000-strong National Union of Journalists has asked the Society of Graphical and Allied Trades and the National Graphical Association to fix a tripartite meeting for the first informal exploratory talks on a possible amalgamation.

Both the printing unions, who respectively claim memberships of 203,000 and 108,000, are also involved in discussions on an amalgamation which could lead to mergers among all four major printing unions.

Efforts to step up plans for a powerful broad-based union throughout the industry, which it is hoped could more effectively meet the challenge of new technology, follow a recent initiative by Mr. Len Murray, general secretary of the TUC. Merger proposals, including those involving the NUJ, have

been discussed for some time, although there have been some setbacks — as in the case of last year's rejection by members of SLADE, the artists' and process workers' union, of talks with the NGA.

Mr. Bill Keys, general secretary of SOGAT, said yesterday that in the face of so much activity it had yet to be decided whether to run talks in parallel. His union's executive was to discuss tomorrow a letter from the National Society of Operative Printers, Graphical and Media Personnel seeking merger talks with SOGAT.

Recent disagreement between SOGAT and the NGA over the pay dispute in the provincial newspaper and general printing industry, he said, served only to underline the need for a united voice among printing unions.

'Reality' urged on NUPE

BY OUR LABOUR STAFF

THE National Union of Public Employees, one of the most militant unions representing low-paid public service workers, yesterday made clear it would fight for pay rises of at least 40 to 50 per cent.

A call for a 56 per cent pay rise this year from delegates at the union's annual conference in Eastbourne was headed off, however, after Mr. Alan Fisher, general secretary, advised union members to be "realists."

Mr. Fisher said the union would pursue wage claims which would achieve a minimum basic rate of around £80. The union was also united in

its objective of achieving a 35-hour week, increased holidays and index linking or two-thirds of the national average.

Delegates had rejected a demand for a 56 per cent pay rise this year for lower paid workers in local government, hospitals, water services and universities which would increase basic rates from £54.45 to at least £85 a week.

The conference, on a card vote, supported across the board settlements instead of percentage rises and a common settlement date for all public service workers.

It's time to invest in Sri Lanka

Earn more profits in Sri Lanka's Free Trade Zone — and keep them

The island republic of Sri Lanka, formerly Ceylon, is strategically located along the world's major air and sea routes, 35 km from the southern tip of India.

In a bold programme to develop its own economic future, the Sri Lanka Government is offering all expansion-minded manufacturers unprecedented incentives to invest in and profit from the country's Free Trade Zone.

A special statutory body, the Greater Colombo Economic Commission (GCEC) is the Authority for the Zone. It's the *only* agency you need deal with, to set up new plants in Sri Lanka.

Among the many incentives offered by the GCEC, none is more compelling than the 100% tax exemption. No tax on corporate and personal income, royalties, dividends — for up to 10 years. After that, a further concessionary tax period for up to 15 years.

In addition, there is no limit on the equity holdings of foreign investors. No import duty on raw and construction materials, machinery and equipment. No double taxation. No tax or exchange control on the transfers of shares, capital and proceeds of liquidation.

Tax exemption, however, is just the icing on the cake. Sri Lanka's Free Trade Zone offers many other advantages:

1. A stable political environment. With a government that's committed to democratic parliamentary rule.



The GCEC will leave no stone unturned to help you set up new plants in Sri Lanka.

2. A wealth of educated, trainable, mostly English-speaking labour.

3. The lowest labour rates in Asia. The average monthly wage in manufacturing industries in Sri Lanka is only US\$35. Compare your wage bill with this!

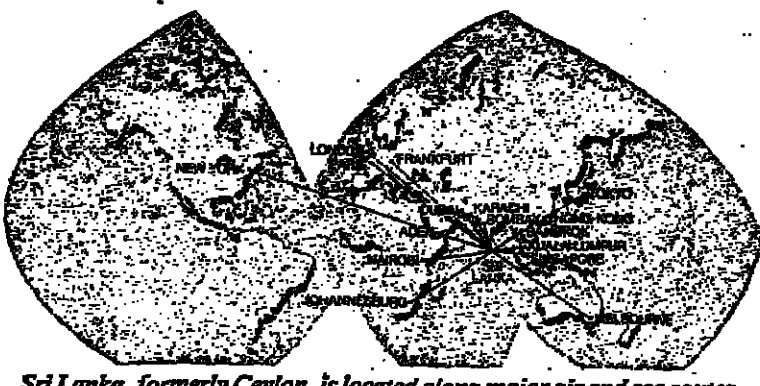
4. Low labour costs in Sri Lanka do not imply low productivity. Quite the contrary. A recent 'Business Asia' study ranks the Sri Lankan worker second in Asia, in terms of relative productivity.

5. The lowest setting-up costs in Asia. Construction cost for factories are only around US\$100 per sq. m. (US\$10 per sq. ft.).

6. The security of your investment is guaranteed by Sri Lanka's Constitution.

With all these advantages, can you afford not to look into Sri Lanka? Especially now when the GCEC has already approved tax exemptions for nearly 100 projects.

Rush off the coupon below for full details or call the Investment Promotion Division of the Greater Colombo Economic Commission at P.O. Box 1768, 14 Sir Baron Jayatilake Mawatha, Colombo 1, Sri Lanka. Tel: 34403-5. Cable: ECON-COM COLOMBO. Telex: 1332ECON-COM COLOMBO.



Sri Lanka, formerly Ceylon, is located along major air and sea routes.

To: The Investment Promotion Division, Greater Colombo Economic Commission, P.O. Box 1768, Colombo, Sri Lanka.

Please rush me details on Sri Lanka's Free Trade Zone.

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Type of business _____

Technical Page

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

● MAINTENANCE

Scans roof to find weak spots

UNTIL NOW, the traditional approach to preventive roof maintenance has been limited primarily to visual inspection and test cutting. Tremco, in conjunction with B.L. Thermographic Surveys, has developed the Thermocore for roof analysis which combines infrared remote scanning with a thorough on-site inspection programme.

Everything, including roofs, emits infra-red radiation, which the Thermocore equipment detects and displays as a continuous thermal picture on a television screen. In these pictures the coldest areas show up as black, gradually lightening until the hottest become white.

The Thermocore cameras can detect energy losses from large roof areas and generally assist in thermal research. Scanning an area rapidly reveals thermal inconsistencies where flaws, cracks or potential danger spots may occur in the roof structure.

Technological developments make it possible to measure differences in temperature as small as 0.2 degrees C. Faults undetectable by less advanced methods of measurement thus become visible with the use of Thermocore, providing a quick analysis, long before a minor

fault turns into a massive maintenance problem and there is a need for major roof surgery.

The equipment is complex and expensive but not delicate. In the hands of skilled technicians from B.L. Thermographic Surveys, working closely with Tremco, it has been made into a robust, go-anywhere system capable of carrying out a roof survey however tough the climate.

The subject of the survey is scanned with an infra-red camera whilst the results are displayed continuously on a TV screen. Points of particular interest are photographically recorded for reference and interpretation to the client by Tremco. The photographs, clearly showing isotherms and relative temperature differences and, with the aid of a reference temperature within the thermogram, absolute temperature can be calculated.

Following the survey, a written report of the roof condition incorporating all the relevant thermograms completes the Thermocore analysis system. This analytical report provides a comprehensive view of the general condition of the roof, and identifies the construction

used on each roof. Further, it outlines moisture-bearing sections as shown by the thermograms and provides general recommendations on roof areas that need attention.

Tremco at Key House, Horton Road, West Drayton, Middx. 08954 40641.

Detects a fault in good time

PREDICTIVE contract maintenance has been devised to help companies introduce vibration analysis to their maintenance programmes without incurring the capital costs of the equipment involved.

PCM builds the cost of vibration meters and technical support feeds into a monthly payment—minimum £200—which can be readily costed into a company's production or maintenance budget over a two-year period. Other more sophisticated equipment, including vibration analysers/dynamic balancers and data recorders can also be included in the contract.

At the same time as the contract scheme, IRD has launched VISIN, the first of a new generation of vibration meters to use colour codes, greatly speeding up data collection.

The portable unit takes vibration amplitude readings in a variety of classifications which are shown on a needle against four colours, eliminating operator errors and all but the most basic training. White is for perfect running, green indicates good, yellow forecasts imminent trouble and red signals that analysis of a potentially damaging problem is urgently required.

As well as speeding up data collection for large plants, the simplicity of VISIN will assist small companies with few, if any, skilled maintenance staff.

IRD Mechanalysis, Bumpers Lane, Sealand Industrial Estate, Chester CH14 1LT 0244 374914.

● LIGHTING

Fashion with fibre optics

FASCIA SIGNS for retail chain, Top Shop, are now operating with the aid of fibre optics, creating an atmosphere of fantasy in the High Street, says retail design consultant, Fitch and Co., 5 Hanway Place, London, W.1 (01-580 3080).

Each letter in the fascia signs, made by John Anthony Signs, is made up of numerous nylon fibres set in a mirrored blue glass sign. Light from behind is transmitted along the fibres and causes the surface of the sign to glow. By passing a multi-coloured film across the light, the sign achieves a gradual change of colour through the entire colour spectrum.

Inside the shops, specially designed lighting fixtures inset in a dark blue ceiling illuminate by the use of a high output quartz halogen material. The lights are enclosed in a mirrored, pyramid-shaped steel frame clad in polished aluminium sheet. Apart from an unusual effect, the configuration avoids the use of costly spot-lighting.



The electrical systems of the latest heavy road vehicles built by ERF can be thoroughly checked with the aid of the equipment shown in use here. Designed for ERF by Thomas Electronics, Garrison Works, Stockport, Cheshire (Newmills 4500), the equipment will monitor over 100 test points and will not only indicate where a fault lies but also give warning of likely points of failure.

● RESEARCH

Making better crystals

QUARTZ crystal resonators of many types are employed in electronic systems to provide and select desired stable frequencies. Uses range from clocks and counters through communication systems. Relatively simple devices are capable of accuracies of better than a few ppm, which, for clocks, means about one second in a week.

Work at Philips Research Laboratories, Redhill (Surrey, England) and Cathodeon Crystals (part of Cambridge Electronic Industries) has shown that the stability of quartz resonators can be much improved by the use of plates cut from a quartz crystal at an orientation different from the one conventionally used.

Most important improvement

obtained is the wider temperature range of the new SC (strain compensated) cut as compared with the AT cut normally used. Other points of interest are lower sensitivity to thermal and mechanical shock.

The new devices age much more slowly and maintain to be paid for this improved performance are only minor.

It is harder to cut the quartz at the correct angles, and marginally more complex circuits are needed to suppress an unwanted vibration mode at a frequency 11 per cent above that of the temperature-stable one.

Philips Industries, Arundel Great Court, Arundel Street, London WC2R 3DT. 01-836 4360.

● COMPONENTS

Heat pump projects

A THREE-YEAR US\$4.4m contract awarded to Westinghouse Electric Corporation by Union Carbide Corporation on behalf of the U.S. Department of Energy calls for the development of an electric heat pump for residential and commercial use.

Demonstration of prototypes is required by 1982. Performances at least 30 per cent better than that of the most efficient units at present available are

sought. The work will be carried out in Pittsburgh.

Westinghouse is meeting 25 per cent of the cost of the programme. It says that independent studies predict that in 1990 electric heat pump shipments may exceed 1.1m. By the year 2000, the projected market share for electric heat pumps increases to 63 per cent of all building heating equipment, with shipments that could be greater than 1.6m units.

Four stabiliser legs are lowered when the unit is in its working position and there are three separate discharge chutes for the rejected and sized material.

The running gear is fitted with suspension units for high speed towing, and the overall towing machine mechanism has a parking brake. Overall 49 x 38 x 90.5 inches.

LAING
make ideas take shape

● HANDLING

Heavier containers fill pool

CONTAINERS WERE first introduced to GKN Chep's national pallet pool a couple of years ago, and now the company has extended this service further with the introduction of heavy duty containers designed primarily for filling into the engineering and allied industries.

Each unit is formed out of a robust thick steel envelope welded on to a steel base plate to give maximum handling capacity, says GKN Chep, 284, Upper Richmond Road West, London, SW14 (01-878 7621).

Bottom skids give four way entry for forklifts and two way entry for wheel trucks. Integral locking lugs allow the containers to block stack for storage and warehousing.

This new service enables manufacturers to meet peak loadings without tying up valuable warehouse facilities, says the company. It also promises the user to capital savings, eliminates misappropriation and loss, minimises container recovery (containers can be transferred to the next user, or "dehired" from customer's premises) and also reduces administration to a minimum.

● INSTRUMENTS

Screen samples and tests

PROMISING TO handle all kinds of wet and dry materials and said to be ideal for sampling and testing duties is a small portable screening unit mounted on a two-wheel trailer for towing behind a car or van.

The double-deck vibrating screen (24 x 47 inches) is operated by a 3 hp petrol engine mounted on the chassis.

"Water" sprays are fitted as standard for rinsing purposes, and a separate potable pump is used to obtain water when working near rivers, ponds, streams etc., says construction plant manufacturer Frederick Parker, PO Box 146, Leicester (Leicester LE5 999).

Four stabiliser legs are lowered when the unit is in its working position and there are three separate discharge chutes for the rejected and sized material.

The running gear is fitted with suspension units for high speed towing, and the overall towing machine mechanism has a parking brake. Overall 49 x 38 x 90.5 inches.

All these securities have been sold. This announcement appears as a matter of record only.

May 27, 1980

2,000,000 Shares

Reading & Bates Corporation

\$2.125 Cumulative Convertible Preferred Stock, Fourth Series

Convertible into Common Stock at the rate of 0.578 share of Common Stock for each share of Preferred Stock

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Dillon, Read & Co. Inc.

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Securities Corporation

Drexel Burnham Lambert

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Lehman Brothers Kuhn Loeb

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Dean Witter Reynolds Inc.

ABD Securities Corporation

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Basle Securities Corporation

EuroPartners Securities Corporation

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Incorporated

Kleinwort, Benson

Incorporated

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Svenska Handelsbanken

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AGKongessellschaft

CONTRACTS AND TENDERS

THE WORKER'S COUNCIL

OF THE COMMUNAL ORGANIZATION OF ASSOCIATED LABOUR FOR WATER SUPPLY AND SEWER SYSTEM "VODOVOD" — THE UNLIMITED LIABILITY COMPANY — CACAK, VOJVODE STEPE STR. NO. 8 IS ANNOUNCING THE INVITATION FOR THE INTERNATIONAL COMPETITIVE BIDDING FOR CONSTRUCTION OF:

(1) Potable Water Reservoir "Ljubic"

(2) Joint Pipeline to the Potable Water Reservoir "Ljubic"

WORKS TO BE TENDERED:

(1) Reinforced concrete potable water reservoir, capacity 8,000 cu. m. of water

(2) Joint pipeline, length 2,140.0 m, made from the steel pipes 500 and 700 mm in diameter.

LOCATION:

CACAK—The reservoir shall be constructed on the hill of Ljubic, near "Zaduzini Put" road, while the pipeline route shall run along the Boris Kidric Street, starting from Ljubicka Street with the transition below the Zapadna Morava river bed.

ESTIMATED COST OF THE WORKS:

—Works under item (1) 22,000,000.00 Din.

—Works under item (2) 15,000,000.00 Din.

TIME FOR COMPLETION:

180 days from the date of receipt of the order to commence the works.

CLOSING DATE FOR RECEIPT OF TENDERS:

The Tenders shall be submitted within 45 days from the date of publishing the present invitation for the International Public Competitive Bidding in the "Yugoslav Official Register" for the Tenderers from Yugoslavia, and within 45 days from the date of announcing the present invitation for the International Public Competitive Bidding in the journal "Financial Times" for the foreign Tenderers.

CONDITIONS FOR ASSIGNMENT OF CONTRACT:

The Tenderer shall be considered for assignment of the Contract if it is submitted as called for in the Tender Documents issued by the Employer, prepared fully in compliance with the instructions given in the Tender Documents and accompanied by the evidence on the company registration, references of the company, certificates on successfully completed contracts and financial status of the company for the year 1979. The Tenderer shall state the time for completion of the works in his Tender.

SUCCESSFUL TENDERER:

The Employer shall not bind himself to accept the lowest Tender. The Tenderer shall be considered more successful if he offers fixed price, construction of the project on turnkey principle, shorter time for completion and if he supplies the evidence on the technical capability of his company, available constructional plant and the qualified personnel.

RIGHT TO PARTICIPATE IN BIDDING:

The right to participate in the bidding procedure goes to the companies from the countries which are members of the Inter-

national Bank for Reconstruction and Development (I.B.R.D.) and from Switzerland. The works being the subject matter of the present International Public Competitive Bidding shall be co-financed by the International Bank for Reconstruction and Development.

DECISION TO BE MADE:

The decision on assignment of the Contract shall be made within 10 (ten) days from the date of opening the Tenders. The Tenders shall be opened at the Employer's offices. The Tenderers who purchased the Tender Documents shall be advised about the exact date and hour of opening the Tenders in due time.

DESIGN DOCUMENTS:

The Design Documents for the works which are the subject matter of the present International Public Competitive Bidding are made out by ENERGOPROJEKT, Hyrotechnical Consulting and Engineering Division, Beograd. The Design Documents can be inspected at the Employer's offices on every working day, except Saturdays, from 6.00 a.m. till 2.00 p.m. Telephone information is available on the telephone number 032/43-095.

TENDER DOCUMENTS:

The Tenders shall be received if they are made out on the Tender Forms provided for in the Tender Documents which can be obtained:

—At the offices of "VODOVOD", Cacak, Vojvode Stepe Str. No. 8, against the charge of 8,000.00 Dinars payable to the current account of "VODOVOD", Cacak, No. 61300-401-1076 held with the Government Auditing Office, Branch Office Cacak, for the Tenderers from Yugoslavia

and

—At the offices of "ENERGOPROJEKT", Beograd, Zeleni Venac Str. No. 18—Bureau for Industrial and Sanitary Engineering, IV floor, telephone number 011/627-522/433, against the charge of US \$400.00, payable to the current account of "EnergoProjekt", No. 60811-628-53-25730-421-10-9-1074 held with the Yugoslav Bank for Foreign Trade, Beograd, for the foreign Tenderers.

SUBMISSION OF TENDERS:

The Tenders shall be submitted to the following address:

"VODOVOD", Vojvode Stepe Str. No. 8, 32000 CACAK, Yugoslavia

City of Cape Town

Computer Based Control System for Operation of Council's Power Network Specification No. N37.3/472

Invitation to Tender

Invitations will be issued in or about 18 July 1980 for the design, manufacture, delivery, installation and commissioning of a computer based remote control system for operation of the Council's Power Network. The control system shall comprise a dual computer configuration at the Master Station controlling some 35 microprocessor based outstations. The Master Station will be housed in a purpose built new control centre to be provided under another contract. This enquiry shall include the computers and all associated peripheral equipment, including apparatus cabinets and no-break power supplies. The remote terminal units at the outstations will be housed in existing buildings.

The software requirements include for a number of advanced special application functions.

In order that his proposal may be considered, each Tenderer must satisfy certain qualification criteria, including the requirement that the Tenderer or his associates must be regularly engaged in the type of work covered by this enquiry and moreover must have designed, supplied and commissioned schemes similar in magnitude and complexity during the past five years. In particular Tenderers shall indicate clearly whether the software for the majority of the special applications functions already exist and have been well proved and tried in service.

Tenderers must submit data with their proposals to enable an assessment of their qualifications and capability of performing the work. Proposals not accompanied by this data may be rejected.

Firms satisfying the above requirements and who are interested in tendering are invited to make applications forthwith in writing before 30 June 1980 to:

MERZ AND McLELLAN AMBERLEY, KILLINGWORTH NEWCASTLE UPON TYNE NE12 0RS, ENGLAND

A copy of the application should be forwarded simultaneously to: CITY ELECTRICAL ENGINEER PO BOX 62, CAPE TOWN 8001, SOUTH AFRICA

A non-refundable fee of £100 will be charged for Tender Documents. Details of the Tender due date and lodging procedures will accompany the enquiry documents.

Further information regarding the work can be obtained from Merz and McLellan at the above address.

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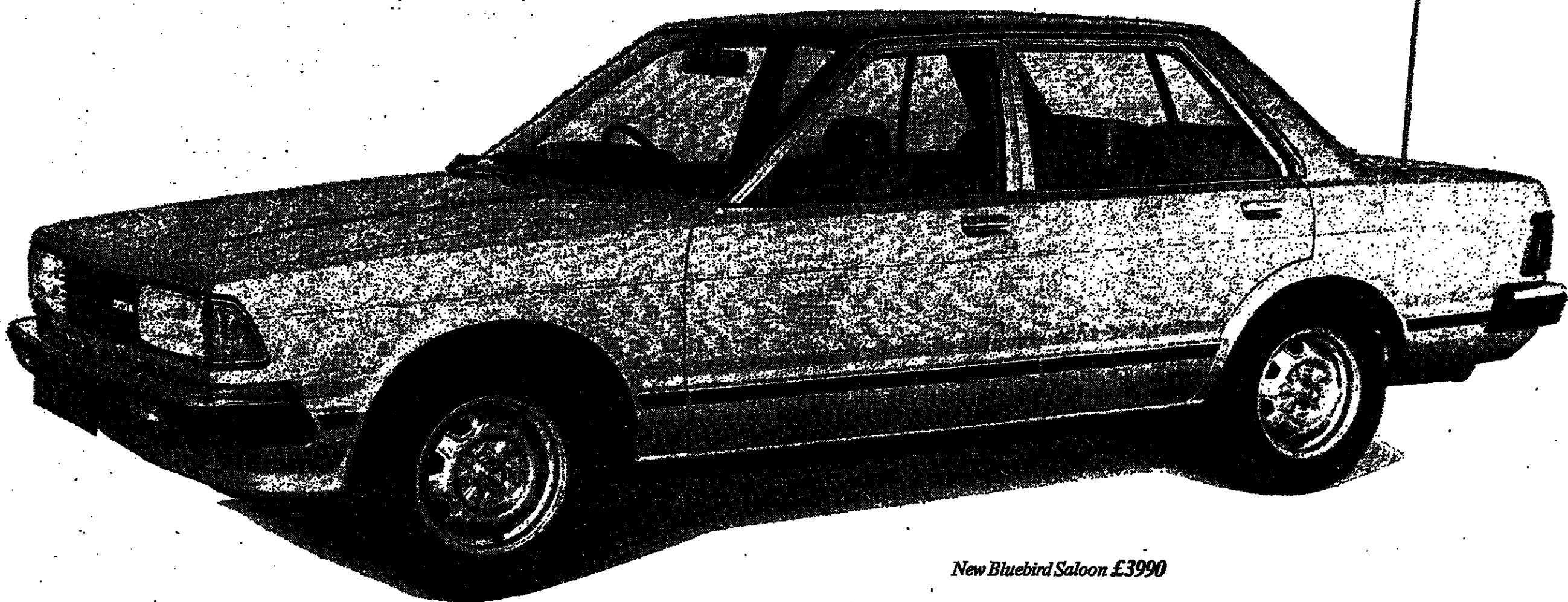
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Total Assets	\$4,142,602,000
Investments	718,564,000
Loans	2,070,409,000
Deposits	2,724,590,000
Shareholders' Equity	230,255,000

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New Bluebird Saloon £3990

Now, Japan has produced the best car ever for Europe!

This is the New Datsun Bluebird. Handsome, functional elegance in a new shape for Europe.

A crowd-stopper without a doubt.

But that's only the start of the story. Because within the new styling, Datsun have incorporated the most modern technology the automotive sciences can provide.

The result is the New Bluebird range – the quietest, most balanced and refined cars that Nissan designers have created. At a price that represents the ultimate in sheer value!

The first Datsun Bluebird was unveiled 21 years ago and since that time, successive models have established a world-wide reputation for performance, economy of operation and durability. Over 4,500,000 Bluebirds have been produced for world markets.

Now comes the most exciting Bluebird yet, a car to challenge and beat the best that Europe can offer in the medium car range.

Technical Advances

High performance, high economy characteristics are engineered into every New Bluebird to produce one of the world's top family cars.

The New Bluebird bodyshells are pressed from a very advanced steel which includes manganese and silicon; this new metal giving high strength, light weight and high durability characteristics.

Technically, there are other major advances for the New Bluebird. Harmonised suspension with "zero scrub" front geometry and rack and pinion steering for safety and driving comfort; independent rear suspension with semi-trailing arms for saloon and coupé to give outstanding road holding performance and comfort; newly designed, ventilated front disc brakes with power assistance to give stable and reliable braking under the toughest driving conditions.

All incorporated in saloons that now have lots more space and sumptuous comfort for driver and passenger alike, together with a long list of special equipment at no extra cost.

There are four models in the New Bluebird range. Two saloons with the choice of a 1.6 litre or a 1.8 litre engine, a very roomy and good-looking 1.8 litre estate car and a Bluebird coupé with sparkling

performance from a special version of the 1.8 litre power unit. The engines are of modern overhead camshaft design to give 100 m.p.h. performance yet, at the same time, use low grade petrol very sparingly indeed.

But the overall economy of the New Bluebird is not confined just to good fuel consumption figures; it has as much to do with Datsun's legendary reputation for mechanical reliability. Like all Datsuns, these new Bluebirds are built to spend their time on the road, not in the workshop.

Executive-Style Equipment

In every New Bluebird you'll find a long, long list of special equipment in true Datsun fashion. In fact, Bluebirds have more in the way of "extras" than some cars costing twice the price.

There's tinted glass * twin waveband push-button radio * quartz clock with month and date display * two-speed wipers with wash/wipe and variable intermittent wipe * halogen headlights * reversing lights * rear fog light * height and lumbar adjustment on driver's seat * adjustable steering column * lockable glovebox with light * roof console with adjustable map light * panel light rheostat * an array of warning lights for washer level, battery level, low fuel, door ajar, etc. * a warning buzzer when lights have accidentally been left on * interior release for boot and fuel lid * rev counter * comprehensive bi-level heating system with rear compartment ducts * courtesy lights on all doors * rear centre armrest * childproof locks * carpeted rear parcel shelf * inertia reel seat belts * rear fog lamp * drivers door mirror and much more.

All this at a genuinely competitive price!

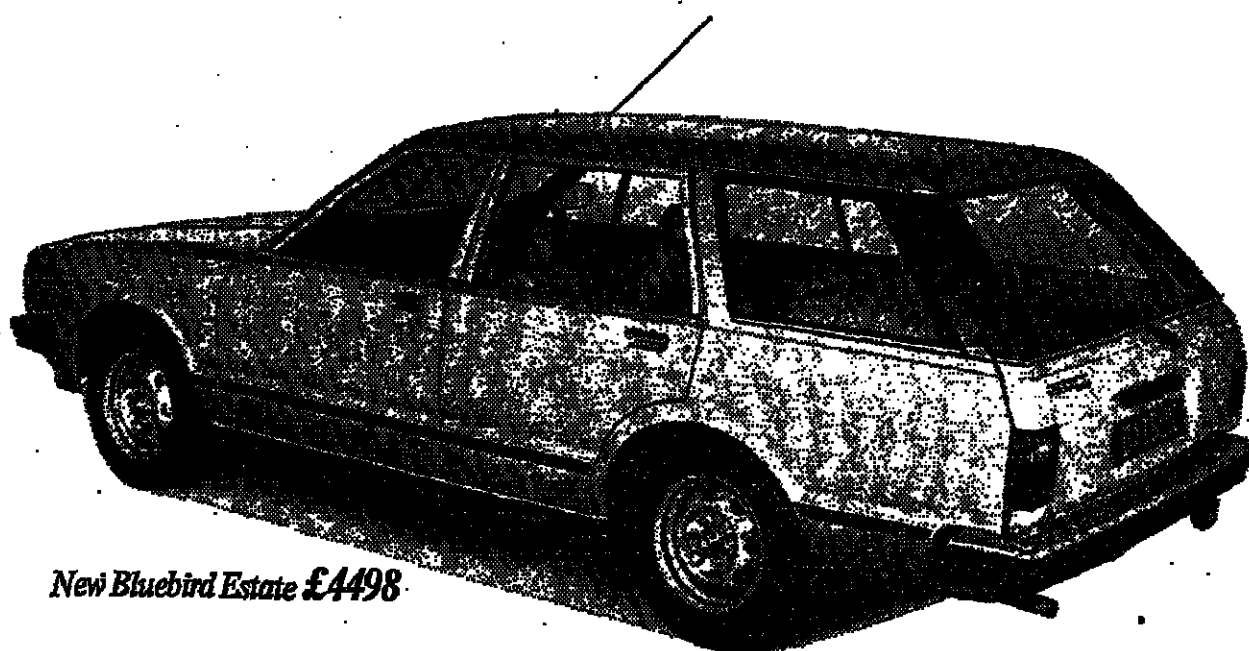
New Bluebird prices start at £3990 for 1.6 litre saloon and £4098 for the 1.8 litre saloon, which makes them outstanding value compared with cars like the Renault 18, Vauxhall Cavalier 1600 GL, Ford Cortina 1600 GL, or other cars like the Sigma 1600 GL and Montrose 1600 GLS etc., which can cost up to £800 more.

With the New Bluebird range, Datsun have produced an advanced new car that will influence the pattern of motoring in Europe for years to come.

The New Bluebird is at your dealer's showroom now. See it, and test drive it soon.



New Bluebird Coupé £4598
(Alloy road wheels shown extra)



New Bluebird Estate £4498

Building and Civil Engineering

New welcome for U K in Nigeria Cleveland

THE CONTRACT signed by Wimpey (Nigeria) for the construction of a £2.4m metallurgical training centre in Nigeria is proof of the improved climate in the country for British companies, after difficult times over the last 12 months in what has traditionally been one of Britain's most lucrative markets.

Wimpey is building the centre as part of a giant steel works for which the contract was awarded last July to the Russian company Tiapromexport. It is part of the deal struck between the Soviet company

and the Nigerian Government that Nigerians will be trained as quickly as possible to occupy all the key positions in the complex.

The settlement of the Zimbabwe issue has enabled the Government to take a more favourable view of UK companies tendering for federal government contracts at a time when the country's economy is opening up fast after the rapid rises in the world oil price.

Meanwhile, at home, the Edinburgh office of Wimpey Construction UK has been

awarded three contracts with a total value of £3.9m.

In Livingston New Town the Development Corporation has let a house contract in the Ladywell west area.

In Glenrothes new town, Wimpey has secured a contract valued in excess of £1.8m for the construction of an office block which will be built for the Scottish Widows' fund and Life Assurance Society.

Kirkcaldy District Council has awarded a contract for the modernisation of 143 houses and flats at Shorburn Crescent, Leven.

Bridge £4m steel job

TRAFALGAR HOUSE company, Cleveland Bridge and Engineering, has been awarded a £4m contract from Shell UK Exploration and Production for the fabrication, loadout, and sea fastening of a module support frame for the Shell/Eso North Cormorant Field.

Frame will consist of tubular trusses and legs, plate girders, skid beams, floor area and walkways. It will contain a tank and pumps for the collection of reclaimed oil from the production module, drain interceptor tank and sewage treatment for the accommodation module, sea water and general service pumps, pig launcher and receiver for the gas and oil pipelines.

Awards to Whatlings

CONTRACTS VALUED together at more than £6.5m have been awarded to Whatlings, including three jobs (totalling £5.5m) for Strathclyde Regional Council.

Work has started on the construction of a £2.5m pumping main between Prestwick and Meadowhead sewage treatment works, and commencing shortly is a £2.3m secondary school at Newarthill. Third contract in this group is for £600,000 and is for the construction of a roundabout near the junction of the A809 and B8050.

The company also announces an £834,000 award for 45 houses at Lockerbie for Amandale and Eskdale District Council and a £152,000 project to replace water supply tanks insulated with asbestos material in 1,000 houses throughout Wigtown District for the local council.

includes widening the A65 at Ingleton (£152,000) for the North Yorkshire County Council, and a new sewer (value £80,000) at Bentham, for the Craven District Council.

Building contracts include an extension for Armored at Earby, bridge repair works near Carnforth for British Waterways Board, a vehicle wash for G. H. Lee, giving a total value of over £100,000.

West's Civil wins £2½m

MEMBER OF WGI Group, West's Civil Engineering, has won £2½m worth of contracts including a new medical centre, value £280,000, for the Property Services Agency at HM Dockyard Rosyth.

South of Scotland Electricity Board has placed a £240,000 job for the construction of a condensate polishing plant at Longannet Power Station.

Other work includes a project for Matthew Hall Norcain Engineering at Grangemouth for BP Chemicals, site preparation work, etc., for Scottish Development Agency, and projects at Prestwick Airport for Scottish Airports and Uddingston and Renfrew for Scottish Gas.

£3m worth to Townson

WORK WORTH more than £3m has just been acquired by William Townson and Sons, including one major project, worth £1.1m, for Central Lancashire new town for industrial nursery units at Walton Summit.

Other projects include fast food restaurant for Warburtons (£189,000); Rivington and Blackrod School for Metropolitan Borough of Bolton education authority (£470,000); industrial units for Vine Cross Investments (£269,000); warehouse units for Lyn Town (£512,000); extensions to premises for Bolton Gate Co. (£130,000); and various smaller contracts totalling £3m.

Pochin's projects

CONTRACTS TOTALLING about £5m have been won by Pochin Contractors who will build a £2m office complex for Warrington (Lancs) Development Corporation, and a £3m swimming pool for Oldham (Lancs) Metropolitan Council.

Other major works include an extension for Boots' chemist chain at premises in Holyhead, Anglesey (£370,000), and work for British Aerospace at Broughton, near Chester, has been approved in a contract worth £820,000.

Further new contracts include work for the Clayton Aniline Company, Manchester (£600,000), the Wellcome Foundation (£100,000), and British Rail (£130,000).

Town centre project

WORK HAS begun on the Hertford town centre redevelopment at Birchley Green, formerly occupied by the central bus station and surface car parks.

The developer, Costain Property Developments, is in partnership with the East Hertfordshire District Council for the £2.1m scheme which is on the edge of a conservation area. The River Lee navigation canal runs alongside the site.

Existing shopping facilities will be extended by Costain Construction and the former car park is being replaced by a multi-storey car park for about 200 cars, a new bus station and an open market area.

The scheme was designed by Leslie Jones and Partners and is planned for completion by autumn 1981.

Factories by Cubitts

Work is to start in June on a £1.7m Central Lancashire Development Corporation contract for factories. The contract has been awarded to Holland, Hannen and Cubitts (Northern).

Six new units will be built at the corporation's Walton Summit Employment Centre giving a total floorpace of 137,500 square feet. Completion is due by summer 1981.

London & Northern busy

COMPANIES WITHIN London and Northern group have announced contracts valued together at £2m.

T. M. Simpson has two jobs, including one for £465,000 in respect of plumbing and heating installations in 245 new houses for Glasgow District Council. The other job, worth £180,000, is for plumbing work only, also on 245 new dwellings at Irvine Newton for the local corporation.

In the Midlands, E. Fletcher Buildings is due to start work on 50 flats for the Royal British

Legion Housing Association at Melton Mowbray. Worth £851,733, it starts on June 2 and is due for completion in 19 months.

Work valued at £89,000 has commenced on a block of six flats for Kettering Borough Council in Station Road, Kettering.

Border Engineering of Whitehaven is to build office and factory extensions valued at £485,697, for the English Industrial Estates Corporation at Cleaton Moor.

TVstudio complex

SECOND PHASE of a television studio complex for Tyne Tees Television at Newcastle upon Tyne is to be undertaken by Shepherd Construction under £1.5m contract.

It will include studios, offices, control suite and link to existing buildings. Completion is due in May next year.

The first phase, involving sub-structure and car park and valued at £420,000 was also undertaken by Shepherd.

IN BRIEF

for a supermarket to be occupied by International Stores in Chipping Norton, Oxon, is provision for a 557-sq-metre sales area, ancillary storage, staff accommodation, offices and machinery plant room.

● ICI has placed a £201,000 contract with Farrow Construction (Northern) for alterations to its plastics division plant at Britannia Mill, Darwen, Lancs, which includes extensions to existing factory and erection of three ancillary buildings.

● A. Roberts (Building) has begun £400,000-worth of renovation at the National Westminster Bank, 126 High Holborn, London, W.C1.

● Two contracts, together worth £1.1m, have been awarded to Y. J. Lovell (Southern), one to refurbish a W. H. Smith and Son store in Worthing, Sussex, and the other to build 16 flats

at Guildford, Surrey.

● A negotiated contract worth about £700,000 to refurbish part of Centre Point, London, in preparation for its occupation by the Confederation of British Industry has been secured by the London Mechanical and Electrical Services Divisions of Haden Young.

Construction Industry

Consultancy specialises in problems of construction industry, contractual difficulties, main contractor/sub-contractor relationships, cash flow problems, survival techniques, etc.

Write in complete confidence to: Managing Director, Box 65942, Financial Times, 10 Cannon Street, EC4P 4BY

Industrial work

WITH A total of £4.2m in newly awarded contracts, most of its latest work is in high technology industries says Fairclough Building.

A £1.6m contract at Heathrow for the Civil Aviation Authority involves altering and refurbishing the airport's control tower, with completion due in April, 1981.

Under a contract worth £1.5m the company's southern division will build factories and warehouses at Riverside Road, Sumner, Warrington, for St. Martin's Property Corporation.

In Wales, contracts worth £1.1m cover the building of two new telephone exchanges which will bring many South Wales area subscribers into the STD network. At Neath, a motor transport workshop will be demolished to make way for a new exchange under a contract worth £800,000.

Second exchange at Llanrumney, Cardiff, is due to be finished at the end of next year

and is worth £350,000 to the company.

Services at RAF base

WORK ON a £2.9m contract covering mechanical and electrical services at RAF Marham, Norfolk, has just been started by the Rosser and Russell Group.

Due for completion in March 1982, the contract covers installations for aircraft hangars, two squadron headquarters buildings, two large personnel accommodation blocks and a number of smaller buildings. Electrical work accounts for £1.09m of the total value of the contract.

The contract also covers installation of standby diesel generation sets and an underground fuel pipeline network. Main contractor is George Wimpey.

Canadian project in Indonesia

NORTHWAY-GESTALT Corporation, subsidiary of Spar Aerospace, Toronto, has been awarded an aerial photography contract in the republic of Indonesia for about C\$9m (£3.36m). The contract is an equal partnership with Kenting Earth Sciences of Ottawa and is financed by the Canadian International Development Agency.

Project work extends over a two-year period (extendable by mutual agreement with the Indonesian government) and the programme calls for high-altitude photography of about half of the country, and is the largest such contract ever obtained by a Canadian aerial survey organisation.

Brewery in Egypt

JOINT VENTURE company of Hassan M. Allam Sons of Cairo and J. Jarvis and Sons of London, Allam-Jarvis General Contracting Company, is to build a regional brewery at Abou Hamad, 70 km from Cairo towards Ismailia, Egypt.

Included in the £2.6m contract are 13 buildings on a 60,000 square metre site which will house all brewing operations, including the final bottling of the company's Stella beer.

Housing by Mowlem

THREE housing contracts at Milton Keynes, worth together £3.5m, have been awarded to John Mowlem by the Development Corporation.

One contract, called Furlton 1A, worth £1.8m, is for 89 timber-framed houses at Parkside, Milton Keynes, together with ancillary works.

The second job is the Bradwell 3A development of 72 homes of traditional brick cavity wall construction at Bradwell Village and the third award is for the second phase of the C15 development in central Milton Keynes.

Worth £550,000, this work involves erection of a three-storey block containing five commercial units on the ground floor and 32 one and two person flats and bed-sitting rooms above.

B. B. Kirk gets £3½m

TOTAL VALUE of contracts recently awarded to B. B. Kirk (Construction) is over £3.5m and includes effluent treatment works extensions at Whaley Bridge, Stockport, for the North West Water Authority with a value of £3.1m.

Other civil engineering work

£2m town centre

HUNTING GATE has been appointed as developer for a town centre scheme, worth more than £2m, at the junction of Lathorn Road and Huxton Lane, Huxton for the Metropolitan Borough of Knowsley.

The 4½ acre site is located next to the town centre facilities and, after being won on tender from the borough council, is leased by the company.

Development will include a £25,000 square feet retail unit, 5,150 square feet retail shop, petrol filling station, pub/restaurant, etc. Included is extensive landscaping, enclosed pedestrian mall areas, surface car parking for 280 vehicles, and associated service areas.

If you want a good transfer sign here! says Brian

To: A. Noble, Chief Planning Officer & Architect, Vancouver House, Gurney Street, Middlesbrough, Cleveland, TS1 1QP.

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World Business



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Today's Financial Times Survey is going to appear a second time—in World Business Weekly on July 7th and 14th.

World Business Weekly is a close relative of the FT—it is published each Monday in New York as a 64-page magazine containing news items and background on world business trends. Material from the Financial Times is specially selected and re-edited for the internationally-minded business community of North and South America.

Since its launch in October 1978 "WBW" has attained a weekly circulation of 20,000, predominantly in the USA, with a wide distribution among the different business centres. It is rated as a first-class guide to what is happening in the business world outside the Americas.

On July 7th and 14th a specially condensed and adapted version of today's Survey will tell America all about World Banking (a two-part Survey).

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FINANCIAL TIMES OF LONDON
World Business
Weekly

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

David throws Goliath a lifeline

Take a large multinational with years of business experience, assured international outlets and a fairly solid home base. Set next to one of its foreign subsidiaries a small local company in the same field, relatively prosperous but little known beyond its national frontiers. Identifying the potential predator and prey would normally be child's play. But in Portugal an unusual reversal of the David and Goliath roles has taken place. Not only is it having a considerable impact on the country's telecommunications industry, but it is also proving a test case for industrial relations six years after the revolution.

Two months ago Central, a small electronics firm, took over Plessey Portuguesa, a subsidiary of Plessey, the UK electronics and telecommunications company.

Plessey Portuguesa was the second largest Plessey subsidiary in Europe; as the largest telecommunications manufacturer in Portugal it was one of the country's major employers with 3,500 workers. It had about 60 per cent of the market for switching equipment and was the major supplier of telephones to CCT/TLF, the State-owned company.

By contrast Central's operations were limited and hardly distinguishable from the many medium and small sized companies which litter Portuguese industry. It had a labour force of 250 and an annual turnover of escudos 275m (£2.5m).

Radar equipment

Since being founded in 1969 it had made a name for itself on the domestic market by providing transmitters and small-scale radar equipment to the armed forces at the time of Portugal's wars in Africa. Following decolonisation, Central diversified into other areas such as coin boxes and strengthened its research and development programme with a series of agreements with foreign companies. It has also negotiated small co-operation contracts with Ericsson of Sweden and C&NK of Denmark. Nevertheless, these did not constitute a real threat either to Plessey or to TTT, the other multinational with a considerable stake in the Portuguese telecommunications industry.

A potential source of strength

Jimmy Burns investigates how Plessey's Portuguese subsidiary was swallowed up by a small local electronics company



Sr. Jorge Rocha de Matos, Central's managing director, who engineered the acquisition of Plessey's electronics offshoot and gave a reprieve to the workers facing redundancy.

for Central was the fact that it was 30 per cent owned by the Portuguese state holding company, Instituto de Participações de Estado (IPE). This could have meant that the Government might have agreed to contribute to any major expansion or possibly provide cheap funds for capital needs.

However since the election last December of Portugal's first staunchly conservative government since the revolution, such a prospect no longer seemed viable. One of the messages that the Democratic Alliance had put across in its electoral campaign was that the policy of interventionism was to be discontinued.

This explains at least some of the uncertainty of success that surrounded the visit of Sr. Jorge Rocha de Matos, Central's managing director, when he travelled to London last February to put a formal bid before the Plessey Group.

By then the local telecommunications industry was in

considerable confusion after a dramatic warning from Plessey Portuguesa that it would go into voluntary liquidation unless the Portuguese Government took steps to guarantee its survival. The company's finances had gradually been eroded by a 50 per cent dip in export orders during the previous two years, and labour and industrial problems within Portugal.

In addition CIT-ALCATEL, the French telecommunications company, had been allowed to break into Plessey's monopoly and supply up to 40 per cent of new telephones to CCT/TLF. At the same time Plessey's management was insisting that the company was overmanned and that productivity was being hampered by absenteeism and stoppages.

Plessey Portuguesa has generally been profitable since inception in 1963 but in recent years has incurred losses. These totalled Es 25m (£0.23m), rising to Es 29m (£0.26m) in

1979. The company's ultimatum was simple enough. It would pull out of Portugal unless the Government agreed to allow Plessey Portuguesa to lay off 1,200 out of its 3,500 workforce without compensation and to guarantee future orders for equipment. The Government refused to consider either.

It was at this point that Sr. Matos stepped in with his major initiative.

In essence he drew up a recovery plan for Plessey Portuguesa that required Central to acquire Plessey Portuguesa on the basis of assuming its liabilities.

Central agreed to repay Es 110m (£1m) of Plessey inter-company loans over the next three years and to honour Plessey Portuguesa's debts of Es 375m (£3.4m). Permission was obtained to convert this into medium and long term debt.

But the major innovation in the agreement involved the future of Plessey Portuguesa's labour force. Rather than precipitate the biggest lay-off since the revolution, Central insisted that a compromise scheme should be attempted.

This was that 860 workers should be temporarily suspended for 12 months after which they should be reinstated. During the intervening period, the workers would be paid a minimum monthly salary of Es 7,500 (£168) and put through a retraining course capable of adapting their skills to the company's future operations.

Significantly Sr. Matos did not sign anything with Plessey Portuguesa until he had obtained the full backing for the scheme for the largely Communist-dominated unions at the company.

That the workers agreed despite rhetorical protests from shop stewards was a major breakthrough in the recent history of Portuguese industrial relations; voluntary acceptance of a temporary lay-off in a private company would have been unthinkable less than four years ago when the revolution was reaching its climax.

Sr. Matos's justification for giving the workers a life line is a purely pragmatic one and underlines the fact he is still

an entrepreneur, albeit a benevolent one. His view is that Portuguese managers should accept that economic, rather than political motives, drive a large section of the Portuguese labour force; in other words that fear of unemployment (in Portugal it is running at more than nine per cent) has produced a new flexibility for compromise.

Sr. Matos, 38, can claim to be one of Portugal's better known businessmen. He is on the Board of the country's main employers' federation, the Confederation of Portuguese Industry (CIP) and is deputy chairman of the Association of Portuguese Industry, which undertakes major research into industrial problems.

Agreement with unions

"I have no objection to raising salaries or having more men than I really need. But in return I expect good hard work and no unjustified absenteeism," he says. Significantly his agreement with the unions on short time is based on the assumption that Central Automatica, as his newly acquired company is called, will triple its productivity over the next year.

Sr. Matos is convinced that in a small country like Portugal local management with experience of working in a small company could prove more successful in steering a troubled giant through tricky waters.

He believes that diversification and continuing co-operation with Plessey, as envisaged in the agreement, will ensure a wider grip on the domestic market as well as increasing export opportunities in Asia, Latin America, and Africa. Diversification is expected to include a greater emphasis on the production of transmission equipment for the armed forces as Portugal strives to meet its NATO commitments in the wake of the Afghanistan and Iranian crises. Central Automatica is also bidding against Thomson of France for a major contract for new air control equipment at Lisbon Airport.

While the prospect of Portugal's entry into the EEC in 1983 will make Central Automatica more vulnerable to competition, Sr. Matos is convinced that small is not only beautiful but also works.

War War, not Jaw Jaw

BY ARNOLD KRANSDORFF

MANAGING a modern business is much like fighting a war, or so Hans Widmer would have us believe. To succeed, he urges, one should take heed of the great military strategists.

Take Frederick the Great for example. "To plan a successful campaign," he wrote, "you must know your enemy, your allies, and the nature of your terrain."

Or Sun Tzu, the early Chinese military writer: "The winning general makes many calculations before the battle starts; the general who loses makes few advance calculations."

Widmer, a specialist in corporate strategy with McKinsey and Co., the management consultants, believes that experience on the battle field has clear parallels with running a large business in today's highly competitive environment, and can provide useful insights into what it takes to outwit competition.

Writing in the latest McKinsey Quarterly, he says it is a truism of military strategy that various indirect alternatives that concentrate on a particular area of weakness are preferable to a head-on assault across a whole front.

Indeed Sun Tzu wrote "that the direct method may serve to join battle, but to secure victory the indirect method must be used."

To illustrate the point, Widmer takes the example of a forklift truck manufacturer whose margins were reinflated by the inclusion of certain components that were made in-house, on a job-shop basis, at unduly high cost.

By buying them in instead, the company's profitability improved dramatically, its tenders became increasingly competitive and its market share soared to 40 per cent in little more than a year.

Widmer thinks that Napoleon is another military strategist who needs careful scrutiny. "The first task of any general," according to the Frenchman, "is to work out what is to be done. The next is to determine whether he has the resources to overcome any obstacles the enemy can put in his way."

According to Widmer, the military principle of economy of force states that the resources should be accurately matched



— as it turned out, very profitably indeed.

Again, according to Sun Tzu: "He who would avoid what is strong must strike at what is weak."

To illustrate the business analogy, Widmer quotes the case of the constructor of process plants whose margins on the few contracts it was able to secure were discouragingly low. Because the company had superior engineering know-how, and efficient facilities and equipment, management did not understand why these advantages did not add up to success.

However, after detailed analysis the answer suddenly became clear; the advantage of its superior engineering was outweighed every time by the inclusion of certain components that were made in-house, on a job-shop basis, at unduly high cost.

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to the terrain, and to the nature of the enemy forces—no tanks in the mountains, no Alpine troops at sea.

The Swiss watch industry is an example where this principle is not observed, he says. At the moment the industry is concentrating its resources on electronic technology. Yet, the cost of a chip in a quality watch amounts to no more than one per cent of the retail price.

Since electronics know-how is freely available on world markets, Widmer says that there is little point in developing and manufacturing one's own.

Yet vast amounts are being poured into this research while the really vital value-added function, marketing, is left in outside hands, he complains.

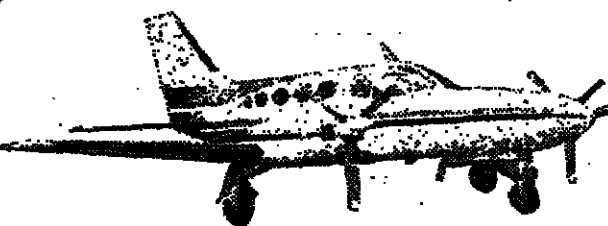
Widmer believes that readiness to view corporate strategy in military terms often stops short of objective-setting, and even then, goals and targets are articulated, if at all, in very imprecise terms.

On the subject of leadership, Widmer quotes the nineteenth century German strategist Carl von Clausewitz, who said: "The more a general demands of his troops, the better his demands will be met."

However he concedes that while it is relatively easy for a general to make demands, it is less easy for a chief executive who is obliged to rely on faith, hope and charity.

* The McKinsey Quarterly, April 1980, available from 245 Park Avenue, New York, NY, USA; 74 St. James's Street, London, SW1; and McKinsey's other national offices.

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BUSINESS PROBLEMS

BY OUR LEGAL STAFF

Winding up

What is the simplest and cheapest way to wind up a small private company, with no assets or liabilities? The last return was sent in May 1979. Would it be necessary to submit another?

The normal course would be to have the Company struck off the Register under Section 353 of the Companies Act 1948. This can be achieved by failing to file annual returns and making no response to the Registrar's notices consequent thereon. However the Registrar is willing to strike off without that process on your notifying him that the company has ceased to trade and has no assets or liabilities. You may be required to file a final account.

Liquidations

The last published accounts of a certain company were for the 17 month period ending March 1978. The shares were suspended in February 1979 and a provisional liquidator was appointed in June 1979. Is there no legal requirement for the liquidator, or the provisional receiver, to inform shareholders of the annual position? You can apply to the liquidator for the information which you require. If this is not forthcoming you should consult a solicitor with a view to applying to the court for the replacement of the liquidator.

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All inquiries will be answered by post as soon as possible.

Loss insurance

I am in the container leasing business in that I own a number of containers which are leased out to shipping companies. It so happened that one of my containers was in Iran when the "revolution" blew up and apparently is still there, with the result that I have earned no rent on this since September 1978. The container has now been mislaid for more than 18 months and, as far as I know, there is no certain proof that it is still recoverable. In these circumstances would the law support a claim by me on my insurers for total loss?

While one cannot "assume" that the container has been lost, we think that you may be able to place the onus on the insurers to show where it is if you record by a statutory declara-

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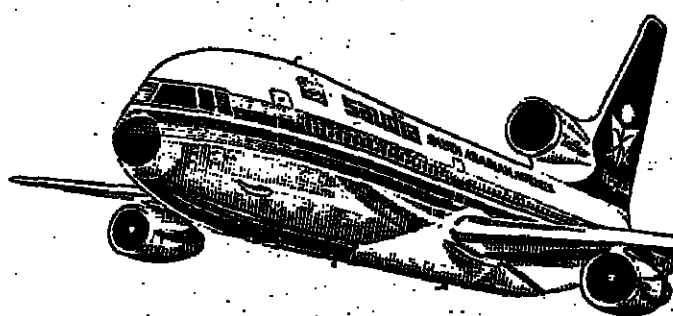
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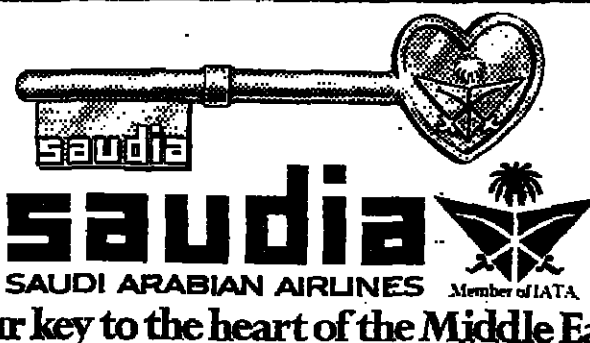
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Your key to the heart of the Middle East.

Stand up and be counted

BY SAMUEL BRITTAN

TO THOSE of us used to dealing with European central banks, the procedures of the U.S. Fed come as a breath of fresh air. The year 1979 was a momentous one for the Fed. It shifted its operating target from interest rates to the monetary base—a shift which the Bank of England still tells us is impossible with all the debating tricks at its command. The Fed also changed its timetable and procedures in accordance with an Act of Congress.

What is even more amazing to European eyes is that the Fed has published not only its broad guidelines, but its detailed operating instructions. A chart published in the March 1980 Review of the Federal Reserve Bank of St. Louis takes all the mystery out of what occurred. Up to early October 1979, the Fed fixed a fairly narrow range—characteristically some 1 per cent—for the key interest rate, the Fed Funds rate. This involved guessing in British-type fashion, which level of interest rates went with which level of monetary growth.

From October, 1979 to January, 1980, the range for Fed Funds was broadened to 4 per cent—from 11½ to 15½ per cent. Thus there was no decision to let interest rates go where they would; but the emphasis shifted in a clearly defined operational way from interest rate stability to monetary rate stability.

Dissident

But open government does not stop here. The key Open Market Committee meets roughly every month and its deliberations are published in summary form a few weeks later—not in the bromide version of a UK Cabinet minute, but giving exact opinions and a guide to who said what. The 1979 deliberations are also conveniently summarised in the St. Louis Review.

The most frequent dissident was Governor Henry Wallach. He dissented from the basic "M1" or narrow money supply target both when it was fixed in February, 1979, and when it was renewed in July. Although the range of 1½ to 4½ per cent for M1 appeared low, Governor Wallach thought that it effectively understated the considerable

growth of the money supply, taking into account all the leakages and substitutes, such as Automatic Transfer Service (ATS), Negotiable Orders of Deposit, repurchase agreements and recourse to Eurodollar borrowing.

One might say that these were the predictable reservations of a hard-money man. Governor Wallach makes no secret of his policy stance; and as a German speaker he is an honorary member of the inner "grosdeutsch" group of central bankers, comprising German, Swiss, Austrian and Dutch members who meet informally during the BIS sessions at Basle and no doubt find much to agree about on the state of the world. Nevertheless, Governor Wallach was proved right by events.

Views

Interestingly, he was quite frequently joined in his hard money dissents on short-term interest rates by Governor Volcker, when he became chairman of the whole system. The hard money dissidents had their case confirmed by subsequent inflation rates.

Governors Balles and Partee, on the other hand, believed that the U.S. economy had reached a cyclical peak in the spring of 1979 and favoured a "prompt easing of money market conditions to provide support for the economy"—which did not in fact go into recession until a year later, even assuming that such action would have been at all helpful. A more interesting and more recent dissent was that of Governor Anthony Solomon from New York from the recent sharp drop in short-term interest rates.

Can one imagine the executive directors of the Bank of England recording their views in similar fashion on Minimum Lending Rate? And in the British context, it would also be necessary to record the views of Treasury Ministers and the five Permanent Secretaries. "Stand up and be counted" would be as beneficial as it would be un-British and perhaps un-European.

IN LONDON last week, video was discussed almost as widely as the Olympic Games and Iran—at least in the central West End area where every major hotel was filled with trade shows. It was what the industry rather inelegantly calls "brown goods" week (white goods are refrigerators, washing machines, etc.—brown goods cover video, radio and hi-fi). Philips was at the Intercontinental, Sony at the Cumberland, Thorn EMI at the Royal Garden and so on.

Here was a chance for the trade to see its first glimpse of Sony's optical video disc player, which was being shown in London for the first time. Toshiba was also demonstrating its LVR videocassette machine, which unlike all others uses an endless loop of very short tape with some 300 tracks packed into its width. On each cycle the recording/playback head reads another track, allowing fast duplication of the tapes and rapid location of any part of the programme.

Conflicting

Philips were braced for the UK launch next month of the machine, an eight-hour playing time rival to JVC's VHS and Sony Betamax. Grundig is also producing a machine to the same format.

In this business, nobody any

longer knows anything for certain. So much is happening, with so many rival and non-compatible products (confused by a rash of conflicting forecasts), that it all shows signs of becoming a marketing man's nightmare. What everyone wants to know most of all is which systems will survive (since there is not room for all of them) and how many machines, tapes and discs will be sold in the next five or 10 years.

The Sony optical video disc player, shown in a back room at the Cumberland Hotel last week, may provide the answer to one of these questions. With Philips, RCA and JVC now in deadly rivalry with their respective video disc systems, the best may not necessarily be the winner.

All the audio-visual Press representatives I spoke to agreed that the Philips VLP system was the most attractive in terms of technical performance and capability. But the main battle now being fought is one of alliances—with RCA getting support from CBS, Zenith and others; JVC attracting Thorn EMI; and Philips forging links with IBM, MCA and even Sony.

The Sony video disc player is compatible with the Philips system. At the point of last week, I produced an MCA/Philips disc and asked the

Japanese engineers present to try it on their player. Without batting an eyelid, they courteously obliged and it worked perfectly. Co-operation between Sony and Philips on this system must have been closer than some might care to admit. For Sony are adamant that their player is only an industrial version; they insist

the most comprehensive attempt so far is about to be published by Mackintosh Consultants—a four volume study under the title Home Video and Electronic Photography.

The conclusions of this extensive survey, on one or two aspects, controversial. In looking at video discs, for example, Mackintosh takes a

rather gloomy view of the future compared with many of the forecasts made by others. By 1985 it estimates that the annual U.S. sales of video disc players will be 700,000. But RCA predicts 200,000 sales in 1981 alone, their first year on the market. Others predict a total "population" by 1985 of 1.4m at the lowest and 3m at the highest calculation.

Pioneer, one of the Philips camp, is forecasting a six figure 1981 U.S. production figure for its own branded player. With videocassette machines, Mackintosh is less cautious, estimating that 95 per cent of all U.S. households will own a videocassette recorder "within

the foreseeable future." In the UK market, Mackintosh forecasts deliveries of 215,000 for 1980, rising to 440,000 per annum by 1981.

I was unable to find in my own internet searches, on total populations, the statistics in which much of the industry is interested. For example, a constant question being asked is "how many videocassette recorders are there in the UK?" I even received a similar query recently about the numbers in Ireland. For the record, I don't know the Irish figure but the accepted UK estimate is well over 300,000 units at present with a forecast of 500,000 by the end of this year.

Elsewhere in the pages of the Mackintosh report are some of the warnings often given in this column, although again cautiously expressed, such as "by 1985 the market for video cameras will have overtaken that for 8mm cameras". Profiles on users are also included, so that we are able to determine that most U.S. owners of recorders are grouped in the middle-age band, are male, and regard the picture quality of their machines as generally good to excellent. European results are similar, although even more male-dominated, and less willing to report picture quality as excellent (perhaps, with the

superior PAL television system of Europe, they are more discriminating). The Mackintosh study is hardly going to be a best seller—at \$66,000 (stacy) and my own editorial mind would be critical of some of the inadequate labelling of tables—such as one which fails to clarify that 1985 figures for video discs are annual sales not a cumulative total.

Nevertheless, the information in the report is the most thorough documentation of the subject, covering the photographic and film movie markets as well as video.

Perhaps Mackintosh is right to take a generally cautious view. Certainly it is a safer course to steer. But I have seen enough of market forecasting in this business to know that they can't all be right, or wrong, and in the end one begins to wonder how such forecasts are finally compounded. One thing is certain: video is now a huge growth industry, and if the forecasts made by some of the manufacturers in the business are wrong, there will be a lot of red ink flowing in their balance sheets.

Home Video and Electronic Photography, published by Mackintosh Consultants Ltd., Mackintosh House, Napier Road, Luton LU1 1RG, England.

Cautious

Home Video and Electronic Photography, published by Mackintosh Consultants Ltd., Mackintosh House, Napier Road, Luton LU1 1RG, England.

FILM AND VIDEO

BY JOHN CHITTOCK

that they have yet to decide which system will be used for their consumer player.

Yet there can be little doubt that Sony would prefer to stay with the optical system, as it is not far from the pressure in Japan for a national standard, with JVC's technology dominating the political scene on this issue. What a tragedy, with optical players already widely in use, and Sony's demonstration last week leaving everyone spellbound with its superb quality.

Meanwhile, the forecasters are trying to make some sense of this huge business, offering clues or guesses about the size of the market. What must be

rather gloomy view of the future compared with many of the forecasts made by others. By 1985 it estimates that the annual U.S. sales of video disc players will be 700,000. But RCA predicts 200,000 sales in 1981 alone, their first year on the market. Others predict a total "population" by 1985 of 1.4m at the lowest and 3m at the highest calculation.

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Cape Chestnut can beat Saison

DESPITE THE presence of Saison in today's Chequers Fillyes Stakes at Sandown, Cape Chestnut could represent the day's betting value.

Although this Bustino filly has yet to win, she has shown enough to suggest that a conditions race, such as this afternoon's one mile event, is within her compass.

A chestnut daughter of the William Hill Gold Cup winner, Boswellia, Cape Chestnut ran an encouraging race on her sole juvenile appearance. She ran the more experienced Boverol to a length in York's Gibeby Champion Racehorse Futurity.

Returning to York 12 days ago the improving Cape Chestnut ran with spirit against the more forward Ta Kenawa, until fading through tiredness.

Sure to be sharper after that outing, Cape Chestnut can make her class tell against Saison.

for whom there were no excuses in the £1,000 Guineas. Noble Saint, who was given little chance by many in the Yorkshire Cup because of the fast ground, could hardly have won easier.

Trainer Robert Armstrong was surprised by the four-year

old's performance, and he seems sure Noble Saint is now better than ever.

If, as the Newmarket four-year-old's display suggests, there are few better stayers in training now that Le Moss is sidelined—he should not be hard pressed to score in the Henry II Stakes.

Noble Saint is only a pound

worse off with the second and third in the 14-mile Yorkshire Cup, Buttress and Vincent. Vincent was going well at the end and I shall be more than surprised if he does not turn the tables on the Queen's Butters.

Stable confidence behind Habitor proved to be misplaced when Lady Beavercroft's Habitor two-year-old could finish only fifth of 12 behind Rectitude in Newbury's Penice Stakes.

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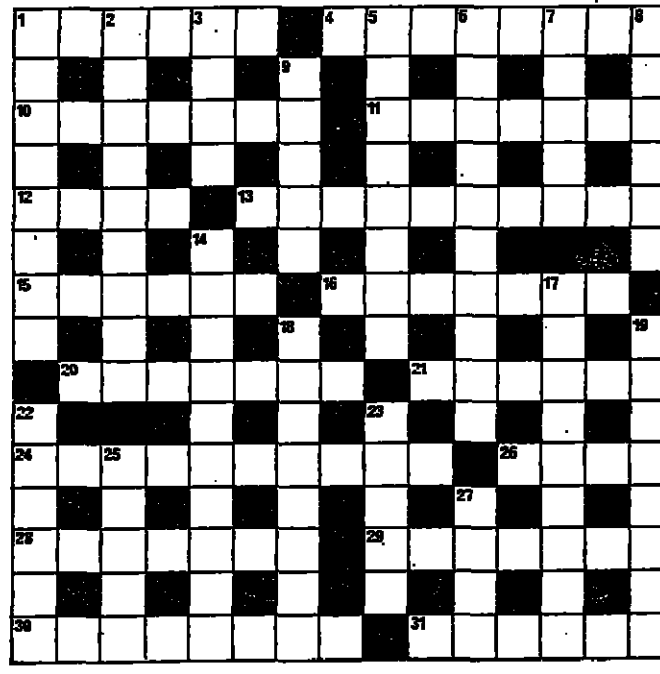
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† Indicates programme in black and white

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7.55-9.00 am News. 1.30 The Plumpies.
9.00-9.15 am P. 3.15 Songs and Praise from Sutton, Surrey. 3.53 Regional News for England (except London). 3.55 Play School (as BBC2 11.00 am). 4.20 Lassie. 4.40 Jigsaw. 5.05 John Craven's Newsworld. 5.15 Ask Aspel.
5.40 News (London and South East only).
5.55 Nationwide.
6.30 Nationwide.
6.55 Bugs Bunny.
7.05 Sykes (London and South East only).
7.35 Life on Earth.

F.T. CROSSWORD PUZZLE No. 4281



ACROSS

- Means of transport for rubbish (8)
- Guide monster around mother (8)
- Top grain could be a freak (7)
- Bone giving us a clap (7)
- Elliptical enclosure where ducks may be seen (4)
- A painful growth in the foot's a place of misery and could be one of the circled (5-5)
- Get hold of dog in bishop's office (6)
- Pale brown mattress (7)
- What soldiers may do with their arms now (7)
- Snoker's jacket? (6)
- Tale of terror welcome to those who are bald (4-6)
- Drink part of some Advocate (4)
- Try a note with will (7)
- Deep-red chalcidony in Eastern fish (7)
- Entreaty certain to give delight (8)
- Satellite involved in lap ten (6)

DOWN

- Game the French thwart with energy initially (8)
- One who kicks his heels for a living (3-8)
- Time to rise and pour forth (4)
- Hold back reserves on coach (8)
- Bird to attack vigorously a gullible person (10)
- Rodent for doctor to employ (5)
- Defiantly putting beast on front and back of lorry (6)
- Fruit and vegetable on church (5)
- Traverse thoroughfares seen on TV (10)
- Bending in electrical cable I take on (9)
- Arrange short English version I never finish (8)
- Red Giant disturbed in incline (8)
- Tea put up to cajole (4, 2)
- Smallest measure on the way (5)
- Publication is to prosecute at law (5)
- Examination of the mouth (4)
- The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

RACING

BY DOMINIC WIGAN

old's performance, and he seems sure Noble Saint is now better than ever.

If, as the Newmarket four-year-old's display suggests, there are few better stayers in training now that Le Moss is sidelined—he should not be hard pressed to score in the Henry II Stakes.

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SCOTTISH

9.30 am Kangaroo Can't Be Caught. 10.30 am Scottish News. 10.35 am Scottish Sports. 10.40 am Scottish Weather. 10.45 am Scottish News. 10.50 am Scottish Sports. 10.55 am Scottish Weather. 11.00 am Scottish News. 11.05 am Scottish Sports. 11.10 am Scottish Weather. 11.15 am Scottish News. 11.20 am Scottish Sports. 11.25 am Scottish Weather. 11.30 am Scottish News. 11.35 am Scottish Sports. 11.40 am Scottish Weather. 11.45 am Scottish News. 11.50 am Scottish Sports. 11.55 am Scottish Weather. 12.00 pm Scottish News. 12.05 pm Scottish Sports. 12.10 pm Scottish Weather. 12.15 pm Scottish News. 12.20 pm Scottish Sports. 12.25 pm Scottish Weather. 12.30 pm Scottish News. 12.35 pm Scottish Sports. 12.40 pm Scottish Weather. 12.45 pm Scottish News. 12.50 pm Scottish Sports. 12.55 pm Scottish Weather. 1.00 pm Scottish News. 1.05 pm Scottish Sports. 1.10 pm Scottish Weather. 1.15 pm Scottish News. 1.20 pm Scottish Sports. 1.25 pm Scottish Weather. 1.30 pm Scottish News. 1.35 pm Scottish Sports. 1.40 pm Scottish Weather. 1.45 pm Scottish News. 1.50 pm Scottish Sports. 1.55 pm Scottish Weather. 2.00 pm Scottish News. 2.05 pm Scottish Sports. 2.10 pm Scottish Weather. 2.15 pm Scottish News. 2.20 pm Scottish Sports. 2.25 pm Scottish Weather. 2.30 pm Scottish News. 2.35 pm Scottish Sports. 2.40 pm Scottish Weather. 2.45 pm Scottish News. 2.50 pm Scottish Sports. 2.55 pm Scottish Weather. 3.00 pm Scottish News. 3.05 pm Scottish Sports. 3.10 pm Scottish Weather. 3.15 pm Scottish News. 3.20 pm Scottish Sports. 3.25 pm Scottish Weather. 3.30 pm Scottish News. 3.35 pm Scottish Sports. 3.40 pm Scottish Weather. 3.45 pm Scottish News. 3.50 pm Scottish Sports. 3.55 pm Scottish Weather. 4.00 pm Scottish News. 4.05 pm Scottish Sports. 4.10 pm Scottish Weather. 4.15 pm Scottish News. 4.20 pm Scottish Sports. 4.25 pm Scottish Weather. 4.30 pm Scottish News. 4.35 pm Scottish Sports. 4.40 pm Scottish Weather. 4.45 pm Scottish News. 4.50 pm Scottish Sports. 4.55 pm Scottish Weather. 5.00 pm Scottish News. 5.05 pm Scottish Sports. 5.10 pm Scottish Weather. 5.15 pm Scottish News. 5.20 pm Scottish Sports. 5.25 pm Scottish Weather. 5.30 pm Scottish News. 5.35 pm Scottish Sports. 5.40 pm Scottish Weather. 5.45 pm Scottish News. 5.50 pm Scottish Sports. 5.55 pm Scottish Weather. 6.00 pm Scottish News. 6.05 pm Scottish Sports. 6.10 pm Scottish Weather. 6.15 pm Scottish News. 6.20 pm Scottish Sports. 6.25 pm Scottish Weather. 6.30 pm Scottish News. 6.35

THE ARTS

Wigmore Hall

André de Groote

by DOMINIC GILL

The performance of Ravel's *Les valses nobles et sentimentales* with which the young Belgian pianist André de Groote began his recital on Friday was immediately arresting for its poise and clarity, for its very beautiful pedalling, for the richness and delicacy of its inner-voice leading. The focus was so close, and the exposition so times so intricate, that once or twice the flow of the music was nearly lost: but never entirely—the grip was firm, the command always successfully recovered; it was a reading, dryly bittersweet, of unusually pungent and original flavour.

The impact of the *Valses* was dissipated much too soon, which is to say instantly, by the first British performance of a rambling piece of subtle and Rakhmaninov entitled *Lacrymose* (no tears except of regret) by the Belgian Franklin Gijssels (b. 1950)—one of those younger composers who, with a certain pride and not without a certain smugness, confess to "avoiding modernity for modernity's sake"—whatever the disclaimer may mean: is one to assume that Mr. Gijssels does, or does not, therefore embrace antiquity for antiquity's sake? Heaping peat upon the

fire, Mr. de Groote continued with the sonata (1949) of Henri Dutilleul which is to be sure a much more coherent and original elaboration of fundamentally the same idiom; but it is a long sonata and by the end of it all echoes of the *Valses* had finally disappeared.

With two such divergent paths to choose between we should be thankful that Mr. de Groote resumed his recital after the interval with Schubert's *Davidbinderlitz*, instead of giving us the whole of the solo piano oeuvre of Arnold Bax from *In a Vodka Shop* to *Lullaby*. And as his Ravel had led us to suspect, his Schubert proved him to be a pianist of warm and penetrating gifts, inclined at crucial moments to go just over the top, but in broad aim so intelligently and sensitively directed that such small excesses were easily forgiven. Just occasionally there was more *Heuer* than accuracy; but this too was an error in the right direction. One of the few elements of the *Davidbinderlitz* which Mr. de Groote did not appear to have considered carefully what where, and how long, to make pauses between the individual pieces—a small point, more important than it seems, and absolutely vital to the dramatic effect.

Elizabeth Hall

London Sinfonietta

Friday's Sinfonietta programme was solidly interesting: the First Chamber Symphony of Schoenberg and the Chamber Concerto of Berg, preceded by the 1917 Chamber Symphony of their cautious contemporary Franz Schreker. David Atherton drove the Sinfonietta through the Schoenberg with his usual dispatch and perhaps undue haste—these players have long known how to achieve the difficult instrumental balance required and it would be nice to relish it less breathlessly. It remains a forcefully cogent reading.

The first two movements of the Berg were lovingly unfolded. Paul Crossley again made something subtle and personal of the solo piano part, which many pianists find curiously ungrateful; György Pauk revealed the full poignancy of the violin's own movement, with playing of masterly sympathy. Atherton secured near-miracles with Berg's wind band. The duet-cadenza flagged slightly toward the end, and the Rondo never quite shook off a suspicion of better-sketcher rush—the great chorale-intonation of the

"Schoenberg" theme did not arrive with the thrilling inevitability it can have. That was at the end of what had become a very long concert; for some reason Hugh Wood, who wrote an excellent programme note about Schreker's relations with the Second Viennese School, came on after the Schreker to tell us expansively how it had sounded to him, and how the Schoenberg was going to sound, and later how the Berg was going to sound too—oddly downmarket for a Sinfonietta concert.

As Wood observed, Schreker's Chamber Symphony proved to sound like several people, at least one of them Schreker. He might have mentioned Szymanowski too (who had already conducted his own music in Vienna), for the shimmering wistfulness and the leisurely cyclical construction; and the silver trio of Schoenberg's *Herzgeschehen* of 1911—harp, celesta and harmonium—is reinforced here by piano and percussion. The chromatic lines have a predictable droop, but the work was eminently worth setting in its fascinating context.

DAVID MURRAY

Festival Hall

Wilhelm Kempff

In his mid-eighties, Kempff is surely the oldest as well as one of the most distinguished pianists still before the public. Cautious expectations before his Beethoven recital on Sunday were, in the event, most generously rewarded. He had wisely re-ordered his programme so as to begin with the early E-flat Sonata, op. 7. He delivered it with relaxed gentleness, youthful ardour recalled from a great distance. Beethoven's strong dynamic contrasts were almost smoothed away, and the surging Rondo was mildly rendered.

In the last sonatas there is no substitute for mature breadth and experienced insight. I was about to write that Kempff's account of the op. 109 Sonata is E was illuminating in every detail, but details seemed never to be there: upon the whole the sonata was sung, sweetly and gravely, as if on a single easy

breath. The transparent density of the music was not made heavily meaningful by slow tempo and the final statement of the Andante subject was utterly simple. Kempff carried the last variation up into his celestial trills unerringly, like someone with a natural head for those exalted heights.

Kempff has earned the right to help himself to both hands for the opening flourish of the C minor Sonata, op. 111. The concentrated argument of the Allegro can be as overdone as the slow wistful tones, a matter of explaining the import very clearly rather than acting it out in full dramatic panoply. The great variation-movement, the Arietta, was inspired and inimitable; here the full sense was translated into marvellous piano-playing, buoyant and serene. It pierced the heart, not all Great Old Men are irreplaceable, but I think Kempff is.

DAVID MURRAY



Beach scene by Degas

National Gallery

The artist's eye

by WILLIAM PACKER

The National Gallery's excellent series of small exhibitions, in which distinguished artists have been asked in turn to make a personal selection from the stock of works held in the permanent collection, continues (until July 20), with R. B. Kitaj's eye in question. The idea is so simple, the rewards so obvious, that little explanation, let alone justification, is needed. When visiting just such a place as the National Gallery, we all indulge our own tastes, consult our favourites, cultivate established interests and, from time to time, break new ground:

and in doing so, perhaps unthinkingly, we bring together as it were, and thus appropriate to ourselves, a private mental collection of masterpieces. But the scholars who look after these things for us, so order and arrange them that like is used to sit with like, everything in its proper place and enlightening conjunctions across the centuries are rarely allowed to happen.

The artist, on the other hand, may have just as particular a professional interest in these things, but his habit of mind is likely to be somewhat different, not necessarily broader in its range, but consciously prepared,

perhaps, to fly freer. He will look anywhere, to any age, for the help and stimulus he needs with his current preoccupations, making connections that we might not notice and the scholar dismiss as spurious or irrelevant.

For example, it comes as a considerable shock for the scholar to confront, as he does here, Mantegna's *Agony in the Garden* cheek-by-jowl with Monet's waterlily pond, or to find the Degas beach scene below the Bellini *Agony* and flanked by two Duccio's, the *Annunciation* and the *Transfiguration*.

It must be said also that one of the happiest features of the entire programme has been, more than mere tolerance, the positive relish with which the curatorial staff has greeted these encounters.

Kitaj has filled the Boardroom with works of many periods and schools: Graeco-Roman, early Italian and Flemish to post-Impressionism, the artists as various—Duccio and van der Weyden, Piero and Titian, Velázquez and Rembrandt, Degas and van Gogh.

It would be straining theory too far to seek to tie them all together more closely than the loose threads of his interest would allow. Artists are brothers under the skin and this a sympathetic act of homage, not a whitewash.

Bath Festival

Opening concerts

by MAX LOPPERT

Not everything about the first week-end was quite right. (The weather, dry after a damp opening parade, seldom sparkled in the way that completes the pleasures of the city.) Yet in the range and the blend of its concert-giving Talis and Purcell to Stockhausen, string quartet, choral, and solo piano recitals, and the promise of Handel, Pisselli, Carter and much more chamber music and solo song still to come—Bath and its artistic director William Glock continue to provide models for other, more generously funded, but less inventively planned British festivals. If, as is often claimed, the most fruitful hint that Casen's gifts may require further development in the theatre.

The unfamiliar pleasure of a new piece enthusiastically received was one to put against some more familiar pleasures to which Bath's concert halls supply the London visitor with a gracious and civilised setting. On Saturday Vlado Perlemuter gave at the Assembly Rooms a Ravel and Chopin piano recital similar, not identical, to the one recently heard and admired at the Elizabeth Hall. The Bath hall is not ideal for the instru-

ment; its reverberance blurs and fuzzes the bass register (the treble, on the other hand, seemed to bloom there, as did Miss Cahill's soprano). But whatever its limitations, the place seemed to inspire the pianist to fresh heights of aristocratic eloquence. The Chopin selection was a miracle of poetic understatement, of simple surfaces and gloriously penetrating insights—has the B minor Sonata ever sounded more substantial, less periodic in its flights of fancy? Once again, one could not swear that finger slips, in a group of mazurkas and nocturnes and in the Ravel sonatine and Gaspard earlier, were of no account whatsoever: but the distinction of Perlemuter's artistry, and the serene virtuosity of his impulses, make most pianists of virtuoso stamp seem like mere journeymen.

There have been a few Bath disappointments. Heard from the back of a crowded Guildhall on Saturday afternoon, the Academy of Ancient Music seemed to be playing Purcell trio sonatas with almost whimsical likeness—the dramatic

emotions patterned therein were very hard to divine, and to that extent, however accomplished the playing of period string instruments, the performances were unauthentic. Charles Brett's easily produced counterpointed through a group of songs as though the words meant nothing, indeed were no more than vocalisation material: he should be required to write out the sentence from Christopher Hogwood's programme note concerning Purcell's skill in English word-setting at least 100 times, as penance. And in their Sunday evening recital, the Meos Quartet of Stuttgart, resident group of the first weekend, sounded quite as corporately glowing of tone and as bland as remembered. Glowing, evenly matched string tone in quartets by Haydn (the *Emperor*) and Beethoven (*Op. 135*) is a virtue that must never be underestimated; yet it was not long before one began to hunger for a little complementary daring.

The effect, in Brahms' C minor quartet, was unintentionally to highlight the indigestible amount of Brahms stodge in the musical mixture.

Chailly conducted the London Symphony Orchestra in a performance of *Manfred* that was memorable for its almost complete success in comprehending the structure and in projecting the bold outlines of its dramatic programme.

Mr. Chailly is now 37, and was for two years assistant to Claudio Abbado at La Scala. He first conducted the LSO at the last Edinburgh Festival, and also last year took charge of

Don Pasquale at Covent Garden.

On the evidence of this concert he promises a great deal. His account of *Manfred* was characterised by spiky, crisply articulated brass and violent climaxes: the first movement a compelling single span, its combined recapitulation and coda immediately and comprehensively overwhelming. The second a demonic rather than elfin scherzo.

The third-movement Pastorale

Royalty

Barnardo

by B. A. YOUNG

Ernest Maxin, author, composer and director of *Barnardo*, has produced a and/or directly such television shows as *Black and White Minstrels*, *The Morecambe and Wise Shows*, the *Petula Clark Series*, to name but a few and must certainly be credited with knowing what the public wants. So evidently the public wants a naive, sentimental, uncomplicated tale with characters asked to do no more than speak simple dialogue and sing a song if necessary; music descended from the palm court school, with lyrics free of harmful sophistication; choreography in which energy replaces imagination. All these he and choreographer Alain Delhay have provided, and Jim Clay and Peter Higgins have added some really splendid scenery, protean and peripatetic to a degree and always ending up in a sound practical design. The tale tells of young Tom Barnardo, a young boy, on boys in the East End and taking them home for a bath, a meal and a supper, something that nowadays would have landed him in prison within a week. More fortunate than that, Barnardo is introduced into Lord Shaftesbury's house, where we encounter the obligatory ball scene, and where he meets Sybil Elmslie. He enthuses over the beauty of her name but pronounces it wrong.

The boys, who steadily increase in number, conspire to get the couple married. Time goes by. There is a Christmas scene in their beautiful sitting-room (the best thing of the evening) where Barnardo brings in his latest boy, Tosh. Subsequently Tosh's mother charges him with kidnapping. When her counsel has made a damning case, the Judge asks: "Has the defence anything to say?" By a thousand to one chance, Tosh has just come home from six months with a family in Canada, and Barnardo is acquitted. Ultimately some of the grown-up boys embark for the Boer War, wearing the uniforms of the First World War, some of them with their bells on upside down.

I felt sorry for James Smilie, who plays Barnardo. Well-known in Australia, it seems, he still has his name to make here and he won't make it in this. Fiona Fullerton has made a name, on films and television at any rate, but she will add nothing to it as Sybil, lovely as she is. I felt most sorry of all for the rows of young boys and girls, well-trained and confident, who shout their songs cheerfully, whether solo or in chorus, and if they don't always succeed in putting the words over I don't think this matters much. I hope they won't grow up believing that dialogue as well as song needs to be miked for audibility.

Grand Theatre, Leeds

Rigoletto

by ARTHUR JACOBS

Alongside the unfamiliarity of Delius's *A Village Romeo and Juliet* and Rossini's *Count Ory*, the English National Opera North is currently offering also the reliable attraction of Verdi's *Rigoletto*. It is a revived production but with a new cast—the role of Gilda being sung by Margaret Neville, remembered as a charming, accomplished lyric soprano who became temporarily "lost" to London on joining the Cologne Opera Company nearly 10 years ago.

Gilda at her first entrance just seem to the audience, as to her oppressed father—an angelic and consoling vision after the odious corruptions of court. It was hard for Miss Neville to sustain that image in a tight-drawn, grey, haggard make-up, and drag dress. Vocally, too, "Caro Nome" was disappointingly and unevenly delivered. Only later in Thursday's performance did Miss Neville fuse musical artistry and dramatic response in a true realisation of the part. The rest of this production conveyed, in something of the same way, an impression of patchiness and in particular of a weak start. Would Robert Ferguson as the Duke be able to overcome that distressingly over-loaded wit? Yes, he would; in the final act, particularly in the quartet, he was admirable. Would Michael Lewis, a physically forceful

rather rough—literally and alarmingly so when Rigoletto shows quite unnecessary violence to Giovanna (Ann Heberington) while instructing her in the care of his daughter. The court scenes are as unconvincing in action as they are ugly to the eye. But Maria Bjornson's design provides an unconventional and successful realisation of the scene at Rigoletto's and at Sparafucile's home. With the former we are in the house, so to speak, while the abductors climb towards us over a high wooden fence from the road beyond.

The cast includes a good Sparafucile (John Tranter), a good Maddalena (Linda Hibbard), an insufficiently strong-voiced Monterone. With firm but not subtle conducting from Clive Timms, and with bold, clear action emphasised rather than any psychological probing, the opera does not fail to make its effect—aided by the pitiful force of Andrew Porter's translation, very well enunciated. This is a standard which the future might accept for a breathing space, but never as a goal.

Chaikovsky's Manfred by ANDREW CLEMENTS

Festival Hall

Under anything less than a totally symphonic conductor, Chaikovsky's *Manfred* Symphony can seem overblown, an unmanageable and prickly score. Many established Chaikovsky specialists fight shy of adding it to the symphonic canon, and thus it appears only rarely in the concert hall—still less often in satisfactory performances—and has hardly been better served on record. But on Friday evening Riccardo

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The third-movement Pastorale

was less convincing. Chaikovsky's version of the bucolic is never entirely happy; on this occasion it was not helped by soupy, unfocused oboe playing.

Mr. Chailly so entirely solved the problems of the finale with his bold brassiness, textures roughly torn, the organ's entry in the final pages deliberately alien, that it seemed extraordinary he should deem it necessary to make a cut in the body of the movement, and that

one of particular savagery, removing the fugal development and hurrying the symphony to a premature close.

The symphony redeemed what had begun as a disappointing evening. Claudio Arrau was soloist in Beethoven's third piano concerto, and his usually careful, studied approach produced on this occasion a performance of extraordinary caution, with risk all but eliminated.

CRICKET BY TREVOR BAILEY

Botham: a question of timing

AFTER THE success and considerable interest aroused by the Prudential World Cup last summer, the two Prudential one-day internationals to be played this week must obviously suffer by comparison, as there really is nothing important at stake except the money.

They represent two minor skirmishes before the main contest later in the season. However, these two games provide another chance to see the champions of limited overs cricket in action, and some fresh faces in the 13-man squad, under a new and comparatively untried skipper, Ian Botham.

The West Indies defeated England in the World Cup final last year by 92 runs, a considerable margin by one-day standards, but it should not be forgotten that the outcome remained wide open until Richards and King savaged our makeshift fifth bowler, a combination of Larkins, Gooch and Boycott.

They also beat us without undue difficulty in Australia in the finale of the triangular tournament. Under perfect conditions they should win again, as they possess more high-

quality stroke makers, a far more dangerous pace attack, and probably have just about the edge in the field. If one or more of their main batsmen should play a big innings, the chances of our players being able to gather as many runs in the overs available would be improbable, and against the West Indian pace men even more so. But on a slow wicket where the ball moves about, or where the bounce is a little uneven, the West Indies can be beaten as Essex showed last week.

The England squad correctly contains several spectacular run-getters, including the ebullient Botham, the enigmatic Gower and the powerful Gooch. Last Saturday I saw Gooch launch a spectacular assault against Surrey, on a far from easy wicket, for his fourth century in five first-class matches. The power of his strokes and the almost contemptuous ease with which he dominated the bowling were reminiscent of Gordon Greenidge at his very best.

The two newcomers to the international scene are the elegant Tavare, whose batting has been one of the happy

features of Kent cricket so far this season, and Victor Marks, the Somerset all-rounder and former Oxford University captain. Victor is an outstanding fielder, good batsman with an excellent temperament and, as yet, a competent rather than a match-winning off-spinner, more likely to bowl 12 economical overs in a one-day match than to capture three for a hundred on a good wicket in a Test.

The obvious advantage of opening the innings in our domestic cricket these days is again reflected by the fact that four of the chosen seven batsmen are openers—Boycott, Gooch, Willey and Lloyd. This means that two, presumably Gooch and Lloyd, will not bat in the position in which they have been making their runs.

Peter Willey, a good attacking, rather outside-conscious batsman, with a fine record in limited overs cricket, and also a useful off-spinner, is from an impressive Northants batting quintet. Although the most talented is the South African Alan Lamb, many bowlers rate Cook as the best prospect for Test cricket from the other four.

The correct retention of Bob Willis, despite indifferent performances last summer and a poor winter tour, indicates the lack of challengers from our young fast bowling brigade. Although Graham Dilley is the best of them, it was interesting comparing him against Middlesex with the opposition opening pair, Daniel and Van der Bijl, who are in a different class.

I believe Graham has the ability to become an excellent quick bowler and with a couple of minor adjustments could establish himself as a true international.

The selection of Ian Botham to lead England in these two one-day internationals is interesting. I would not query the choice on the grounds of age, or lack of experience, merely of timing. Ian is a magnificent cricketer, the best all-rounder we have produced since the war, possibly ever.

My concern is what might happen if he is appointed for the two series against the West Indies, and, as is not unlikely, England loses both. Like a football manager, a cricket captain has to accept, often unfairly, the blame for failure.

OLYMPICS BY MICHAEL THOMPSON-NOEL

Questions over Olympic behaviour

AND SO to Moscow. One of the most curious features of the battle of hyperbole that marked President Carter's call for an international boycott of the Moscow Olympic Games was the absence of discussion over what countries will do when they arrive.

Will they parade their flags and sing their anthems in a perfunctory way? Or will they encourage their athletes to shun the opening, closing, and medal ceremonies, and thus record on Soviet soil, arguably a more effective demonstration of disgust against the invasion of Afghanistan than merely staying away?

U.S. position

In the U.S. shortly before the Administration made it clear that under no circumstances would an American team compete in the Olympics, Dr. Zbigniew Brzezinski, President Carter's national security adviser, spelt out the official U.S. position.

"We do not oppose the Olympics," he said. "It is the site we oppose. We have determined that we cannot permit business as usual in social, cultural, scientific or commercial activities."

Rules

The U.S. Administration replied that "the International Olympic Committee has rules that penalise the athletes for political displays, and what would be dramatic on U.S. tele-

vision would never be shown on Russian."

Nevertheless, discussion of how athletes should compose themselves in Moscow will intensify in the seven weeks remaining. It is here that Britain's attitude could be crucial.

In the gold medal table for the summer Olympics over the period 1984 to 1976, Britain stands 11th, with 16 golds, which ranks her as only a middle rate Olympic power.

However, in the view of some, it was the cast-iron determination of the British Olympic Committee to send a team to Moscow in spite of great pressure not to do so by the Government that played a role in encouraging virtually the whole of the Western European bloc, with the exception of West Germany, plus a significant proportion of Commonwealth and ex-Commonwealth countries, to go to Moscow.

Britain will not be represented in the yachting, hockey, equestrian and rifle shooting events. Otherwise the plan is to send virtually a full Olympic

Propaganda

"It will not contravene the Olympic rules, but neither will it allow itself to be used for propaganda purposes by the Soviets."

The Olympic organising committee in Moscow may have succeeded in its prime aim, namely, to over-ride the boycott call and attract enough of the world's athletes to pass muster as a quorum. However, in reality, its problems are only just beginning.

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The pains of gradualism

THERE IS now growing dissatisfaction, not least among Government supporters, with the results so far visible from the economic and monetary strategy which has ruled for the last year.

In these circumstances, critics of official policy, whether monetarist or more traditional in their approach, are likely to get a more attentive hearing than for some time past. The forecasters at the National Institute of Economic and Social Research appear conscious of this fact, and in their latest review, so far from dancing on the graves of their more extreme monetarist opponents, they pose some quiet, tentative and in some ways searching questions.

It is unfortunate that the answer proposed—the institute's almost ritual call for an incomes policy—is likely to hog the headlines. Unless it is specified how the next attempt is to avoid the failures which have marked all previous efforts, this is in our view totally unhelpful. It is hardly worth saying that our problems would not be nearly so trying if the worst of them would go away.

However, in its analysis of the present outlook, the review does have something pertinent to say. Its central message is that a gradualist approach to our problems, relying on steady monetary pressure to reduce inflation, offers no kind of soft landing. On the contrary, it may entail grave long-term costs.

Straightforward

The reasoning is fairly straightforward. Wages, in the institute's model, are heavily influenced by the rate of increase in consumer prices—an assumption which has led to uncomfortably accurate forecasts of these numbers. At the same time, the Government is relying heavily on cash restraints in the public sector which imply increased charges.

The burden of adjustment is thrown upon industrial profit margins and investment. The corporate deficit will maintain a heavy demand for credit, so that interest rates are likely to fall only slowly, and after a long delay—a further burden, both directly and via the exchange rate, on manufacturing industry. The longer this regime is maintained the greater the cost in investment and long-term competitiveness.

This gloomy view of the medium term future does not, it should be stressed, rest on any very extreme pessimism. Since the conclusion of the Egyptian-Israeli peace treaty 14 months ago the so-called Camp David process has moved on, sporadically spluttering like an old vehicle on the verge of a breakdown. Arguably, it has made no advance whatsoever. With the passing of the May 26 deadline for the conclusion of the talks on autonomy for the Arab inhabitants of occupied West Bank and Gaza Strip, the confrontation has ground to a complete halt.

Security
 The talks that have taken place over the past year on Palestinian autonomy could hardly be characterised as negotiations. Only after President Jimmy Carter obtained a commitment from President Anwar Sadat of Egypt and Mr. Menachem Begin, the Israeli Prime Minister, that the exchanges should be intensified did they come to grips with the real issues, in particular security arrangements for the territories.

Predictably, Israel showed no hint of flexibility in its insistence that it alone should be the judge of its own requirements, and therefore, that security, internal and external, should be its exclusive domain. The meetings at Herzlia and Alexandria only served to emphasise what seemed crystal clear long before: Egyptian and Israeli concepts of autonomy are policies apart, quite apart from those of the Palestinians themselves.

Mr. Sadat's decision to suspend them was not only understandable but perhaps politically necessary also.

For its part, the Israeli Government seems happy to sit back, confident that neither Egypt nor the U.S. can abandon a negotiating process in which they have invested so much. Moreover, as it rights its control over the West Bank and Gaza Strip, Mr. Begin seems assured that U.S. electoral considerations will preclude any pressure from Washington for Israeli concessions. His Government's attitude is almost certain to become more uncompromising following the resignation of Mr. Ezer Weizman, the Defence Minister.

Mr. Weizman was opposed to the Likud-led Coalition's more extreme and controversial

about the immediate outlook. On the contrary, the review is a good deal less alarmed about the likely scale and duration of the immediate recession, both here and in the U.S., than most forecasters. Nor does it blame our problems on monetary policy itself. A policy which would allow sterling to depreciate by 10 per cent over a year is examined and rejected; on the institute's model, this would do little apart from provoking worse inflation and a temporary worsening of

Unrealistic
 Wages are therefore at the centre of the picture. Essentially the institute is arguing that the pressures which are maintaining unrealistically high real wages will soften the recession in the near future, but do lasting damage to the supply side of the economy in the longer term. We are eating the seed corn.

This analysis looks depressingly like reality and incomes policy is not the only alternative policy discussed. In one remarkable paragraph the review even flirts with the idea of an extreme monetary crunch of the kind recommended by Professor Friedrich Hayek—the "big bang" alternative to gradualism. This is rejected as impossibly risky, but the underlying thought remains, like the Cheshire Cat's grin: a quick adjustment, however painful in the short term, would be greatly preferable to slow strangulation.

It seems that a somewhat similar analysis, and especially a similar realisation that present trends point to a very sad picture of the mid-1980s, has inspired the new urgency about wages expressed last week by the Prime Minister and the Chancellor. Their proposed remedy does not sound as comfortable as talk of "incomes policy," but is no doubt more realistic.

What Ministers have come to realise is that while competitive pressures are already restraining wages in manufacturing, where many settlements are below the inflation rate, they have failed to impose similar disciplines in the public sector. It is cash limits rather than credit restraint which have proved ineffective. A confrontation of this problem is not a comfortable approach, but if it is pursued with determination, it could show that monetary policy versus incomes policy is hardly a full description of the available alternative measures.

measures on the West Bank. In itself the resignation of the Israeli leader who had built up the closest rapport with Mr. Sadat and his probable replacement by a hard-liner will be a blow to the prospects for the autonomy talks. At the same time, it will further weaken a divided, unpopular Government, increasing the chances of elections before the end of the year for which Mr. Weizman has publicly called.

Both Mr. Sadat and Mr. Carter may secretly wish for the early return to power of a more moderate and flexible Labour-led Government in Israel, which is more likely to negotiate a satisfactory form of Palestinian autonomy. That must be true also of West European Governments. Notwithstanding the request to them by Mr. Edmund Muscat, the Secretary of State, to refrain from any action likely to harm the Camp David process, they must consider what they can do to keep the Palestinian issue alive and what other possible framework might bring about a comprehensive peace settlement.

Europe's role
 At this point sponsorship of a UN Security Council resolution amending, or supplementing, 242, to take into account specifically Palestinian political rights or self-determination would be unwise because of the risks of an American veto at a time when Western solidarity is at a premium. An explicit statement by the leaders of the Nine when they meet in Venice next month would do no harm even if they are unlikely to influence Israel.

Dr. Kurt Waldheim, UN Secretary-General, is one who believes a new vehicle will be necessary and that the West Europeans will have a role to play in it. No one should be little the achievement constituted by last year's peace treaty. But Mr. Carter must surely be forced, sooner or later, to recognise that the related Camp David accords are insufficient and that the negotiating structure provided by them is too narrow to bring about a comprehensive Arab-Israeli peace settlement.



SOUTH KOREA—the nation which until a year ago was boasting that its economy might soon overtake Japan's—has been forced to start thinking about whether it is going to survive at all. Survival seemed to be the point at issue last week when the population of almost a whole province went on the rampage in protest against a series of repressive measures announced by the martial law authorities in Seoul and rumours began flying of "unusual" North Korean troop movements on the military demarcation line. The rumours had become less alarming by the weekend and life in Seoul—now the world's eighth largest city and a place where wealth is conspicuously displayed—seemed to be largely back to normal. That does not alter the fact that for a period of nearly one week, Korea appeared to be as near to the brink of catastrophe as at any time since the end of the Korean War.

Ironically the cause of the trouble can be directly related to past economic success. From the mid-1960s until 1979 South Korea grew and prospered greatly under a regime which combined a touch of democracy with a high degree of authoritarianism in practice and an all-out emphasis on rapid economic growth. When the founder of the regime, President Park Chung Hee, was assassinated last October by the chief of his own intelligence service, the time seemed to have come for a switch from the dictatorial style of government of the late President to something more like Western democracy.

A timetable for constitutional reform was accordingly established and a start was made on dismantling some of the more obnoxious features of the Park system. For example the previously ubiquitous government intelligence agents were withdrawn from university campuses and schools. From the beginning, however, it was clear that a wide gap existed between advocates of "instant democratisation" and those in the armed forces and elsewhere who secretly wanted to continue with the old system.

During the past two weeks the would-be "democratisers" and the opponents of almost any change have taken their battle to the streets with results that have probably cost several hundred lives and may also have caused irreparable damage to the country's economy. This is all the more tragic in that neither group, in all probability, represents more than a small minority of the country's total population.

The University students who sparked off the crisis with two days of massive (and under the present system illegal) demonstrations in the middle of May were condemned as trouble makers by most ordinary people.

On the other hand the caretaker Government, which replaced President Park last October made itself still more

unpopular when it reacted repressively to what had been a largely peaceful show of strength by the students.

The Government's measures included the extension of martial law to the whole of South Korea, the banning of all political activity and the arrest of 25 prominent individuals some of whom may have had little or nothing to do with the student demonstrations.

The Government acted as it did because it was told to do so by General Chun Doo-hwan, the chief of the Army Security Command (i.e. military intelligence) and the acting head of the civilian Korean Central Intelligence Agency.

General Chun is not only the most powerful among a group of generals who took over the top army positions in an internal putsch last December following the President's death. He was also extremely close to the late President and is known to have been outraged by the wave of revulsion against Park's policies which began after the assassination. Some of those arrested in the May 17 round-up seem to have been people against whom General Chun and his fellow generals bore a personal grudge, although many may also have been guilty of the charges of corruption or political incitement which have been levelled against them.

The May 17 arrests cleared the political decks in that two out of three politicians who had been expected to run for the presidency in direct elections, due to be held in 1981 were included in the round-up. One of the detainees—that of the prominent Opposition leader, Mr. Kim Dae-jung—also had the effect of stirring up the latent regional tensions that exist in South Korea.

Kim is a native of Cholla Province in the south-western corner of the Korean peninsula whereas the late President Park and General Chun were

The northern menace is genuine and infiltration may have been stepped up

born in Kyongsam Province in the South-east. Cholla was to some extent bypassed during the industrial development which took place under Park and its people were clearly hoping to make up for this setback under a democratic regime—especially under one headed by the popular and demagogic Mr. Kim.

The damping of these hopes through Kim's arrest set off violent demonstrations in Kwangju, the provincial capital of Cholla, which soon degenerated into a vicious civil war after two brigades of (non-Cholla) special forces had been sent in to quell the disturbances. The breakdown of law and order in Kwangju probably does not herald anything like a general uprising against the central government in Seoul, if only because the people of Cholla are not popular in the



Elements in the power vacuum: President Choi Kyu-Hah, rioters in Kwangju, and Opposition leader Kim Dae-Jung.

rest of Korea (not even in Seoul where they represent an estimated 15 per cent of the city's population). The Kwangju rioting could, however, spill over into guerrilla activity in the surrounding hill country, in which case North Korea could be presented with a tempting opportunity to meddle in South Korean affairs. If this were to happen considerably more than the two divisions of South Korean troops (out of the army's total strength of 28) that have been employed in an attempt to restore order in Kwangju might be needed to handle the situation.

The martial law authorities showed signs of wanting to play up the North Korean threat in the first few days, no doubt in order to gain public support for the hard line they have taken in dealing with students and other protesters. This does not alter the fact that the northern menace is genuine; indeed there is some reason to believe that northern infiltration has already been stepped up to take advantage of the south's disorders.

Leaving aside the security threat in Cholla, the main effect of the army inspired emergency measures has been to create a political vacuum. The army strongman, General Chun, is not thought to possess either the ambition or the ability to follow in President Park's footsteps. In other words he is not likely to make the transition from periodically interfering in the government of the country to actually running it himself.

Thus Korea may continue to be ruled by a civilian government but one without democratic credentials and with

diminished authority and prestige. President Choi Kyu-Hah, the caretaker Head of State who has been in power since directly after President Park's assassination, is a capable bureaucrat with little apparent taste for politics and no taste at all for the exercise of power. Sooner or later he may have to give way to someone with a more solid power base. But after the arrests of May 17 it is hard to guess who that person might be.

Neither of the country's existing political parties appears likely to be able to provide leadership. The Democratic Republican Party (originally formed as a base for President Park) lost its leader in the army round-up while the chairman of the opposition New Democratic Party, Mr. Kim Young-Sam, ironically seems to have lost prestige by not being arrested.

Both parties in any case tend to strike outside observers as factional groupings centred around powerful individuals rather than as genuine political parties with their roots in the Korean community. A party based on the new middle class of prosperous farmers and small businessmen which emerged under Park might provide a basis for a new Government. So might a party representing organised labour. But for the time being neither party exists, or appears likely to come into existence.

The question marks over Korea's political future appear more disturbing if economic uncertainties are taken into account. Under the Park regime the country went all out for maximum economic growth, the original George V table. Now, little difficulty in borrowing to cover this deficit, but there are

the price for this from late 1978 onwards when inflation began to get out of hand and serious bottlenecks developed in various parts of the economy.

These were chiefly in light industries providing basic essentials for the home market and in the supply of skilled labour. During the past 18 months, the Government has retrenched, pursuing a tight money policy, and aiming at a fiscal surplus, but it has paid the price with dangerously increasing unemployment. On top of that, inflation has continued because of factors, such as oil price increases, which are largely or completely beyond the control of the Government.

The new Cabinet of bureaucrats and retired army officers that took power in the middle of last week's disturbances is expected to relax credit restraints to some extent and to try to get the economy moving again after a period of zero growth in the opening months of 1980. But the task of getting Korea back onto any path resembling a stable growth path is not easy. One problem is that the country has lost its competitive edge vis-à-vis other "new industrial countries" such as Hong Kong, Singapore and Taiwan and is thus losing ground in vital export markets.

Another difficulty is that resumed growth may put intolerable strains on the balance of payments. Korea ran a current account deficit of \$3.9bn in 1979 and expects to be in deficit by more than \$5bn this year thanks to a higher oil import bill and the negative impact on the invisible account of high U.S. interest rates. So far, the Government has experienced little difficulty in borrowing to cover this deficit, but there are

doubts as to how long this can continue.

A \$7.5bn foreign currency induction programme drawn up for 1980 includes around \$1.7bn worth of long term borrowing from private financial institutions of which roughly one-third had been completed when last week's political disorders began. The reaction of foreign banks to the upheavals was not clear (or at least not unanimous) in the immediate aftermath of the army crackdown. But some banks are said to be staying aloof from a series of syndicated loans being arranged for the five main Korean commercial banks until the political future seems more certain.

If the future of South Korea looks distinctly cloudy at present because of internal upheavals and uncertainties it is important to remember one external factor that could change the situation. This is that Korea must solve its problems or face the prospect of losing out to North Korea in the battle to decide on whose terms the peninsula should ultimately be united.

Competition with the North has fuelled the economic achievements of South Korea over the past 15 years and injected a dynamism into the national character which few other developing countries can match. There is no reason to believe that the South Koreans, as a nation, will tackle the latest set of problems any less vigorously than they did earlier challenges. The difference between today's situation and earlier awkward moments in the country's history is that patience rather than energy may be the quality most needed to ensure survival.

MEN AND MATTERS

Burke's goes international

No one could accuse Burke's Pezage of being behind the times. Its ambitions these days reach well beyond the tiled denizens of the old country, and its researchers are already clambering up the family trees of China and Japan.

Meanwhile, volume II of its trilogy Royal Families of the World, just out, seeks to pin down who's who in the Middle East and Africa. Particularly as regards the Middle East, it is timely enough: the British have had close contacts with the Gulf for nearly two centuries, and yet remain in general profoundly ignorant of its nations and cultures.

The £28 volume is a partial corrective, though purists might jib at the hordes of chiefs, sharifs, sheikhs, sultans, beys, and imams all given the Burke's stamp of royal authenticity. However, royalty buffs should get their money's worth in the quantity if not in quality. The net has been cast over 30 countries now enjoying, or enduring in the recent past, a monarchic regime. It is a dwindling establishment. Today the governments of a mere 12 countries are headed by a royal family—four of them are within the boundaries of the Republic of South Africa.

The royal pedigrees are a mixed bag. The unlamented ex-Empress of the Central African Empire, former Private Jean-Bedel Bokassa, is enshrined within the red covers claiming descent from one Dobogon Gbo Hosenango, who, observes Burke's non-committal, "may have lived about the middle of the 17th century."

Not a patch, really, on the imperial family of Ethiopia, which can be traced to "the alleged offspring of Solomon and the Queen of Sheba."

Surprisingly, it seems that the book was compiled in England mainly on the basis of writing letters to the relevant parties. Researcher David Williamson, who spent three



"Got a light Mac?"

years on the project, laments that "it is very difficult to get a response from a lot of these people—they are not geographically minded, and a lot of them had no written language till Africa opened up in the last century. It is often difficult to know what address to write to."

Saudi Arabia proved a particular headache. "They say," says Williamson with quiet desperation, "that there are between 2,000 and 4,000 princes. They are very cagey and they're not interested—they seem to take the view that 'we know who we are, so what business is it of yours?'"

Prison stick-up

I gather that Punch editor Alan Coren faced some novel problems last week as a result of the magazine being printed in France. (This is due, as they say, to a printing dispute.) The May 21 issue was printed with the date June 11. "They rang up and said 'zui' and 'ma foi' and all the other things the French say when they have mucked something up," says Coren. "We are printing on a very tight schedule. There was no time to run it again."

The solution turned out to be very simple. Convicts at a

nearby prison were given the diverting task of sticking on 100,000 labels bearing the correct date. Readers with a taste for irony will be disappointed to learn that Frénesse goal does not contain a certain prominent raincoat manufacturer currently incarcerated in France who might have smiled at this chore.

Coran has been forced to print abroad for the last seven weeks, first in Belgium, now at Vitry, near Paris.

Snookered

Envious as it must sound to own a full-size billiard table, getting rid of one is no easy matter. Robin Howard, president of the Timber Trade Federation, is in the unhappy position of owning a 12 ft by 6 ft table groaning with history and family memories, but with nowhere to put it.

About the turn of the century my grandfather, a respected name in timber, was told there was a special job coming up—a table for the Prince of Wales, later George V. Howard grandpère duly supplied an "extra special selection" of Cuba mahogany, only to find that his bill was not met by the table manufacturers, Burroughes and Watts. The deal he eventually made was that Burroughes and Watts should instead build him an exact replica, which they did.

"We all played on it. I can remember during the war when we could hear the German bombers flying over us in Sussex towards London, and my father was making a big brass all very stirring stuff," says Howard, who is chairman of the family firm W. W. Howard.

Sadly the family house near Robertsbridge has now been sold, and the new owners have pressing alternative uses for 72 sq ft of space. "I phoned around a number of West End clubs, but with no joy. The ones that want a table have already got one. I think I just missed out on the RAC though."

by a fortnight. The idea was that we would offer it rent free provided they paid the cost of carriage. I even thought of offering it to Prince Charles, but I wasn't quite sure how to go about it." If forced to sell the table outright, Howard is thinking in terms of about £5,000. Cuba mahogany in those lengths is no longer obtainable.

Buckingham Palace is unclear what has happened to the original George V table. "There is one here, but we're not sure if it's the one you mean."

Bold front

Poland's dissident publishing house Nowa is mounting a vigorous campaign to free Bogdan Grzesika, one of its printers, whom the authorities insist on holding in prison despite the recent release of the publishers' director Miroslaw Chojceki.

Not content with dropping leaflets from tall buildings, and buttonholing Western publishers at last week's International Book Fair in Warsaw, Nowa sympathisers have just produced a T-shirt with a suitable imbruit. There is some speculation as to how the authorities will react when someone dares to sport one of these T-shirts in public. Passers-by picking up protest leaflets have been known to have them snatched away by the police. Suppressing seditious clothing might involve more complex tactics.

To add insult to injury, the T-shirts bear the tag "Made in China."

Typecast

Someone at Cegos Management Development is typing herself out of a job. Or could it possibly have been one of those revolutionary word-processors which prepared the note telling me of the course next week on "The Roll of the Secretary."

Observer

The search for the perfect malt whisky.

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FINANCIAL TIMES SURVEY

Tuesday May 27 1980

WORLD BANKING

PART TWO: PART ONE APPEARED ON MONDAY MAY 19

The Western world's banking community is paying increasing attention to the consumer end of the business, where there are still many areas of potential development. This section of the survey examines these in detail, particularly the impetus given to marketing by electronics and other modern technology.

Gains at the retail end

By Michael Lafferty

IN SEVERAL countries around the world banks and financial institutions are showing increased interest in personal or consumer banking services. To some degree this reflects a switch of attention from previously lucrative areas of wholesale banking now that lending margins are almost wafer-thin. But to a large extent it reflects new and increasing opportunities in the retail banking market-place, partly resulting from new technology.

As standards of living improve people tend to save more, spend more, travel more and many borrow money from time to time. All these activities can be

facilitated by banking services, and systems, especially payment systems such as cheques and credit and debit cards. In the past decade these systems have crossed national boundaries in order to keep up with consumer demand.

Traditionally, many commercial banks have tended to look on personal banking as unexciting, but a necessary activity in order to provide a cheap and stable deposit base. Services such as cheque accounts were provided simply to keep the depositors happy. Such attitudes still prevail in many banks, including one or two of the big British clearers. These banks are finding the process of adjustment to the new world of retail banking very difficult.

Up to 20 years or so ago, only a restricted proportion of most countries' populations had savings, or needed the services of banks. Most of today's big commercial banks grew up serving that sector of the population—broadly the middle and upper classes. As standards of living have improved for the average working man some commercial banks have responded by extending their services to the whole of the adult population. In many cases, however, commercial banks have remained the banks of the better-off members of society.

The gap in the market has been bridged in different countries in different ways. In West Germany local savings banks

have grown up; in France co-operative banks have emerged as a powerful force, and in other countries like Holland Post Office-based giro systems have been developed on a considerable scale.

Today banking services are available to and are regularly used by almost all the adult population in countries like Germany, the Netherlands, France and the U.S., in the sense that people have bank current accounts. Here the UK is a notable exception among developed nations, because only around 55 per cent of the adult population in the UK is banked. This oddity is closely linked with the continued payment of weekly cash wages to 80 per cent of manual workers in the country. But it is also clear that the major British banking institutions have not shown any significant interest in the British worker until now.

Priority

There are indications that this may be on the verge of changing. Midland Bank recently became the first of the British commercial banks to launch an advertising scheme specifically aimed at working-class people. Barclays Bank has made it clear that it regards the penetration of the unbanked population as a major priority for this decade.

At the same time increased interest in the British retail banking market has come from U.S. banks like Citibank, Bank

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of America and First National Bank of Boston. Altogether, it seems likely that Britain will be one of the most interesting markets in the world for retail banks over the next 10 years.

Citibank, the New York-based international bank which ranks about No. 2 in the world, provides a remarkable contrast with other commercial banks in the

retail banking field. Until the early seventies it had a profile very much like that of most other big banks in the personal banking area. Corporate and personal services were often sold through the same outlets and by the same people.

All of that changed in 1975 when Citibank decided "to make a business" of consumer or re-

tail banking. Consumer banking services were then separated and marketed through separate outlets. An integrated worldwide retail banking division was created, with six regions, just as for wholesale banking.

Citibank found that there was a familiar pattern to retail banking around the world. It was able to use experience gained in New York in its efforts to get into markets in Europe and elsewhere. One of the first actions of Mr. John Reed, the man in charge of the whole operation, on taking up his position was to seek a board position with a major U.S. corporation that was heavily retail-oriented. He ended up at Philip Morris.

Citibank reckons it is the world's largest international retail bank. A close second may well be Barclays which, apart from its UK operations, is now well established in retail banking in places like the U.S., Continental Europe and South Africa.

Typically, most of the big commercial banks of the world are primarily and often solely involved in retail banking in their home markets. But there are several exceptions. Lloyds Bank of the UK has branch banks with substantial retail business in California and New Zealand. Hongkong and Shanghai Banking Corporation now controls Marine Midland, a bank with a large retail business in

New York, and National Westminster is in a similar position, having recently acquired National Bank of North America, a branch bank in New York State.

Citibank seems to be the only major commercial bank with an international retail banking division based on separated consumer banking services in all market places. In the UK, Midland Bank is following a similar route in converting its typical bank branches into retail service outlets.

While only a small number of commercial banks have entered retail banking on an international scale, other developments have taken place to make retail bank payment systems international. The process started with the credit cards of Visa and Mastercard, each of which originated from Bank of America and Citibank. Today these systems are franchised worldwide on a co-operative basis. They are becoming more than plastic card systems, as both Visa and Interbank, enter the travellers' cheques market.

Response

It is partly in response to these two payment systems that the "Eurocheque Organisation" has emerged. Legally there is no such thing as the "Eurocheque Organisation" similar to Visa or Interbank. But the reality is that a number of Continental

European banks, led by West Germany's mighty Deutsche Bank, run an organisation which today embraces not just the Eurocheque cheque guarantee card system, but includes the Eurocard travel and entertainment credit card, and the European Travellers' Cheque, which is based on the purchase of the T/C business of Thomas Cook of the UK.

What Eurocheque, Visa and Interbank do demonstrate is that retail banking can and does have much in common all round the world. Whether Germans, Japanese or Americans, people the world over have very similar needs when they travel. They want to be able to behave as much as possible as if they have not left their own country; they want to be able to make payments without a fuss or undue delay and they want peace of mind.

The payment systems of Visa, Interbank and Eurocheque are, in varying degrees, cashless. Yet cash remains the most popular method for payment in all countries around the world. Even in the US, the home of the plastic credit card, the cashless society is still some decades away. The greatest change is likely to come with the introduction of point-of-sale terminals in retail stores. Once this happens on a significant scale the advantages of cash over electronic payment systems will probably diminish significantly.

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Era of electronics and the plastic card

THE WORLD of international retail banking has entered a new era. After centuries of barter trade and the development of national currency systems, a revolution spurred by technology is creating vast new areas of electronic banking.

These include a host of credit and debit cards, automated teller machines (ATMs), cheque cashing cards, travellers' cheques and travel and entertainment (T and E) charge cards.

It has been estimated that there are currently no fewer than 743m cards in circulation around the world. In the global struggle for customer loyalty and trade, a few leviathans such as Visa and Interbank are engaged in a battle which can only be described as fierce.

Visa, the blue, white and gold card organisation, which claims nearly 80m cardholders worldwide, started as an offshoot of the California-based Bank of America. In 1958, the "BankAmericard" was offered throughout California for the first time. The programme succeeded so well that by 1966 the bank formed a subsidiary to license banks outside California to operate affiliates. In that year eight American banks were licensed and in Britain Barclays Bank agreed to issue the cards under the name "Barclaycard".

In 1970 the system was moved from Bank of America administration to a membership corporation owned by bank users. By 1972, an international committee representing card licensees met to consider the possibility of an international organisation to administer the blue, white and gold cards. As a result, Bancorp Limited, began operating in October 1974.

The name of the group was changed to Visa in 1977 in order to achieve international brand recognition. This was followed by steps to integrate the Visa authorisation system worldwide. Member banks contribute a usage fee, based on a

percentage of turnover. But the Visa administrative system is now a non-profit owners' collective.

Interbank (Mastercard) is the other major payments organisation. Like Visa, it has about 12,000 banks around the world attached to it and its central role is co-ordinating, marketing and new product development. Also like Visa, it is usable in about 3m outlets around the world. Global card membership is 78m, the majority in the States (61m).

Mr. Russell Hogg, the chief executive of Interbank, likes to point out that his organisation is not just a credit card company, but a "family of credit products."

Access is the main UK label, but Interbank uses three in total—Mastercard, Access and Eurocard—and these three will soon appear together on the front of all cards.

The "Eurocheque Organisation" is the umbrella group for a four-part system which includes the Eurocheque, the Eurocard, the European Travellers Cheque and in future, a common European cash dispenser network.

Dr. Eckart van Hooven, a

PAYMENTS SYSTEMS

ALAN FRIEDMAN

colourful and controversial figure on the world retail banking scene, helped to found the European system from his base at the Deutsche Bank. He felt that a European payments system should be primarily cheque-based.

It was his belief that the use of a cheque guarantee card and a cheque limited to Europe would reduce the risk of bad debts and fraud in the banking system. So in 1968, the Eurocheque system was started.

There are now separate Brussels-based Secretariats for Eurocheque and Eurocard and it is hoped to unify these in the future.

Another major payment systems organisation is the American Express group. This is a travel and entertainment (T and E) plastic card issuer with about 10.5m cardholders worldwide. It is issued in 23 currencies and is used principally as a cash substitute rather than a credit facility. American Express exacts stringent financial criteria from its cardholders and serves an up-market clientele around the world. American Express also leads the international travellers cheque business, with more than half of the world market.

Until the spring of 1978, American Express dominated the world market along with Bank of America, Citicorp, Barclays and Thomas Cook. The last provided scattered competition in different parts of the world.

In June 1978, the association of banks that issued Mastercard credit cards announced

that it would issue a travellers cheque to complement its card. Citicorp, a member of Mastercard, immediately sued Interbank on the grounds that it would have an unfair advantage in seeking to sign up other Mastercard members. But this legal action was recently dropped and Interbank is going ahead with plans to introduce a travellers' cheque by next year.

Visa entered the travellers cheque market last year and predicted confidently that it would achieve a 40 per cent market share within five years.

The European response to the fragmented travellers' cheque market was to buy out

the Thomas Cook interests and proceed with a "European Travellers Cheque." This programme is now going ahead as a Europe-wide answer to what is commonly regarded, particularly in German banking, as a U.S.-dominated market.

Between the European T and E card, cheque guarantee card and travellers' cheque, there is a fair amount of sometimes emotional competition with the Americans. A formal "European Council for Payments Systems" was recently formed and a declared intention is to strive for a "pan-European policy and system."

On a global scale, cash dispensing machines are difficult

to co-ordinate. Visa cards are being fitted out with the necessary magnetic strips so that Visa-franchisees such as Barclays Bank can soon design the cards for use in ATMs. But officials at Mastercard/Interbank admit that this usage may pose a problem for them at the Access in Britain is the child of several clearers and the U.S.

In terms of the international competition, however, the payments situation is complicated by several factors. In the States, for example, the pervasive concept of "duality" has meant that most U.S. banks issue both the Mastercard and Visa variety. In Britain the Visa Barclaycard is run by just

one bank while the Joint Credit Card Company services Midland, National Westminster, William and Glyn and others with the Access card, an Interbank card.

Mr. Dee Hock, president of Visa International, has taken full part in the burgeoning debate between European bankers and Americans on proper international payment systems. He recently said that European criticism of Visa was "emotional, misleading propaganda."

He denied that Visa was strictly a credit card organisation and said that it was not solely American. Commenting on European allegations that the Visa system was too costly, he

said that members paid only 1/80 of per cent of their sales volume.

But his comments did not assuage European criticism. Dr. Eckart van Hooven of the Deutsche Bank countered: "At this stage a hypermodern payments system is not the best vehicle for the vast majority of our European consumers."

Dr. van Hooven's words are symptomatic of a larger contest in the field of payments organisations, a contest now moving into high gear. In the various fields of bank cards, cheque cards, travellers cheques, T & E cards and cash dispensing machines, the battle has just begun.

Eurocheque points the way

CHEQUE GUARANTEE CARDS

ALAN FRIEDMAN

posed for the first time. In that year, the system began operating in the Federal Republic of Germany and the Benelux countries.

Four years later, the first uniform Eurocheque card and a uniform Eurocheque were introduced. These uniform cheques allowed a customer to write cheques in several European currencies.

Those countries which both issued and accepted uniform Eurocheque cards and cheques became known as active countries. Countries such as Britain and Norway, which accept the Eurocheque but do not issue it, are known as passive countries.

The Eurocheque network today encompasses 39 countries in Europe and around the Mediterranean. According to the Deutsche Bank, there were 72m cheques cashed last year by holders of either the Eurocheque card or of a national bank card with the "EC" insignia.

Although British banks now accept uniform Eurocheques, the UK remains outside the "inner circle" of the Eurocheque working group. This working group meets twice a year and has an administrative Secretariat based in Brussels. There is no formal Eurocheque constitution so the decisions of the working group tend to govern if any change is needed.

It is a system which works surprisingly well. There are some 200,000 European banking offices which accept the Eurocheque and the non-banking sector has been opened up as well, even in Britain and Ireland.

A few weeks ago Jugobanka, the Yugoslav bank, announced that all Yugoslav banks will soon be joining the uniform Eurocheque system. It is already

possible to write Eurocheques behind the Iron Curtain and one can even write a ruble Eurocheque in Moscow.

But the Eurocheque system is part of a broader strategy which has been masterminded by a group of European bankers including Herr Dr. Eckart van Hooven of the Deutsche Bank.

Because of his beliefs that consumer credit should stem from the banks, Dr. van Hooven would like to see the Eurocheque rather than credit cards as the main payments medium. His goal is to see all European countries in the "active" category of Eurochequing.

One Belgian banker recently predicted that Britain will adopt the uniform Eurocheque as an active issuer within the next few years.

Bitter

But this optimistic forecast is not necessarily shared in British banking circles. Barclays, for example, still has a bitter taste in its mouth because of a 1977 conflict with the Eurocheque committee.

The basic Eurocheque philosophy conflicts with major international credit cards such as Visa or Interbank/Mastercard. So the Eurocheque working group was not pleased when Barclays displayed the "EC" insignia on the front of its Visa-Barclaycard.

Dr. van Hooven explained: "We felt that Visa did not fit with our system. So Barclays agreed to remove the 'EC' and to issue cards separately for cheque cashing on the Continent."

Barclays did so and currently has around 100,000 separate "EC" guarantee cards in circulation. The differences extend beyond this particular issue. Visa, the

international credit organisation, has had a running feud with the cheque-orientated European bankers.

Mr. Jose Ribeiro de Fonseca, vice-president of Visa for Europe and the Middle East, complained that the Eurocheque system prevents customers from having a "free choice." Eurocheque is doing what they can to prevent competition in the market. We don't see Eurocheque as a major payment system," he said.

Dr. van Hooven expressed the view that there should be no competition in the European payments system. "We want to keep costs down for our customers. A credit card involves an expensive technical system. A cheque card fits in with the banking network," he said.

The debate about costs is difficult to settle, but it is clear that Eurocheque will face competition from the Americans. Says Dr. van Hooven: "I think that they can be the payments system in Europe, let them try."

The cheque guarantee card debate is limited to Europe because the concept does not really exist in North America. Cheques carry a slightly pejorative connotation in the States and are not in widespread use for retail purchases.

The most approximate U.S. cheque card is a card issued in conjunction with U.S. current accounts for use in cashing a cheque at any branch of a particular bank. But this is the limit of such cards. U.S. banks also offer "lines of credit" which provide some overdraft facilities. But in the weak American cheque anti-inflation programme, most ceilings have been lowered significantly.

It appears that in these matters Europe will remain the centre of attention for some time. The ambitious Europrogramme devised by bankers on the Continent is moving forward, but not without some resistance from international credit card advocates. Britain, meanwhile, has still not joined the uniform Eurocheque system. It may be some years before this happens.

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Financial highlights

based on the two banks' balance sheets as at 31.12.79:

	Lux.frs.	500' million
Share capital:	16.867	»
Total assets:	3.908	»
Loans to and deposits with banks:	12.223	»
Corporate lending:	11.925	»
Bank deposits:	3.308	»
Customers' deposits:	898	»
Shareholders' equity:		»
Gross operating result during the 15 months' period from Oct. 1, 1978 to Dec. 31, 1979:	250	»

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Futurist view of one all-purpose card

THE U.S. was the birthplace of the credit card and it remains the leading country in terms of usage and number of cardholders. With more than 200m cardholders, the Americans are the ultimate connoisseurs of plastic credit.

Following a distant second, the UK has around 10m cardholders among the major organisations. On the Continent, the numbers are even smaller. But if the development of plastic money was an American phenomenon, it has rapidly become a worldwide activity. The 1970s saw a plethora of new cards on the global market, from international franchise cards like Mastercard to tiny in-store cards and even non-bank cards such as the British Airways/Visa card.

There are already 14 major types of consumer cards, but three stand out as leading examples. The credit card is revamping credit facility, usually entailing some interest charges and commonly available for cash advances as well as store purchases. It generally has an upper limit, calculated on the basis of a multiplier of the amount put into the account each month.

The debit card is not in broad use in the U.S. and does not exist in Britain, but is available in some countries on the Continent. It is a purchase or cash card which is directly linked to the customer's current account rather than to a credit facility. The closest approximation in Britain is the automated teller machines (ATMs) which deduct withdrawals from current accounts. The travel and entertainment (T and E) card is a charge card, not a credit facility. There is no credit ceiling and users are generally required to repay funds by the end of each month. If they do not, they may be subject to special interest or penalties.

Customers normally receive the credit and debit cards without any extra expense. The T and E card usually entails an initial fee and annual membership charge. Financial criteria needed to obtain T and E cards are usually more stringent than those required to open a credit card account.

The world of bank-related major credit cards revolves about two organisations: Mastercard/Interbank and Visa. The American Mastercard label is tied in Europe to Access in Britain and Eurocard

(a T and E card) on the Continent. Mr. Russell Hogg chief executive of Interbank explains: "We don't try to tell Access or Eurocard how to do business. There is a totally different cultural approach to credit cards and chequeing and we have to be sensitive to this."

Mr. Hogg, who has been head of Interbank for just three months, is making a serious effort to co-ordinate relations with his European partners. This will be necessary in view of the strong "Europeanism" which has coloured the credit card debate.

Dr. Eckart van Hooven helped to father the Eurocard system 15 years ago. As a board member at the Frankfurt-based Deutsche Bank, Dr. van Hooven has been an ardent advocate of cheque-based credit rather than plastic cards. His views have reflected the German resistance to major credit cards as costly to operate and inflationary. According to Dr. van Hooven, the Eurocard (circulation around 450,000) is a T and E card because the basis of credit should be through chequeing. "The American credit card system is a catastrophe. We feel that consumer credit should remain with the banks. The Americans have forgotten this and everything is out of control. Their degeneration of consumer credit has inspired inflation."

Mr. Hogg at Interbank says that he is willing to co-operate with the Eurocard system. He and Dr. van Hooven are in agreement on the need to have both the Mastercard and Eurocard insignia on all Interbank cards so that there can be global recognition. Difficulties in this area have plagued Interbank recently and this is where the competition takes its cue.

Mr. Dee Hock is president of the San Francisco-based Visa International group, the worldwide franchise organisation which grew from its original Bank of America operation in California. "We don't think we have any real competition worldwide. American Express competes as a T and E card. Cheques compete as payment devices," he said.

As evidence of the inevitability of the credit card over cheques, Mr. Hock says that in 1979 Visa grew 78 per cent in terms of European volume. He claims that "there is a strong German-dominated attempt to enforce Eurochequeing" and says that only a "common identity worldwide"

CREDIT CARDS

ALAN FRIEDMAN

can succeed.

At Barclays Bank, the Visa member in Britain (with 5.1m cardholders), general manager Brian Pearce agrees that chequeing growth is less dynamic than cards. "Britain is becoming much more credit card conscious. Barclaycard has grown at 15 per cent per annum in recent years while the number of cheques is growing at 6.7 per cent." He points out, however, that cheques start from a higher base.

Barclays has been active in pursuing a variety of credit card programmes in Britain,

mirroring the general trend in the States. One of the more controversial arrangements is the Visa-Barclays "blue band" programme. Under this, British Airways and other non-bank organisations can offer a Visa card with their company name on it.

The goal of this programme is ostensibly to foster customer loyalty, but a British Airways/Visa card can be used to buy any kind of airline ticket or even groceries in a London supermarket.

Barclays defends the programme by saying that banks

are in business to lend money. It views the non-bank cards as another way of lending funds.

Barclays also administers some 97 in-store systems under which stores like Habitat or Co-op can offer revolving credit cards to their customers. But this programme, similar to one offered by Access, only accounts for 100,000 cardholders.

With a total of 5.2m cardholders (Visa, non-bank and in-store) and a Barclays current account base of 6m, it is possible that saturation is another motivation for new and innovative programmes.

Access, which is administered for National Westminster, Midland Lloyds and William and Glyn, has a potential customer base of 15m and only 4.5m cardholders. Mr. Peter Stroudley of Access commented: "By the end of the 1980s we'll have more Access holders than Barclaycard."

His prediction echoes the words of Interbank, where Mr. Hogg promises new credit cards including "major purchase" cards which may allow higher credit limits or none.

The only no-limit cards presently available are the T and E cards such as American Express. Of the approximately 15m T and E cards around the world, American Express comprises two thirds. Diners Club has about 3m, Carte Blanche just under 1m and Eurocard 450,000.

Mr. Thomas Meyers of American Express believes that his company will continue to grow in the 1980s because it reaches a more affluent part of the market. "We are a charge card, not a revolving credit and credit guidelines don't hit us," he said.

American Express plans to offer a series of new services in the next few years, including a

driver security plan, universal credit card registration, emergency funds transfer and a special rate for holders past the age of 65.

All the evidence suggests that credit and debit cards will continue to grow in the 1980s and 1990s. The next innovation, possible in Britain and the States by 1985, will be the point-of-sale terminal. This will allow customers to use a card directly in a special terminal located in department stores or supermarkets. But the cost of development of this system could be prohibitive until the banks and retailers work matters out.

In 30 years, though, the revolution of electronic fund transfers may well be staggering. In the year 2000, the combined credit/debit card may come into its own. Mr. Peter Stroudley of Access describes the possibilities: "The customer

will have an account at a central location. His salary will be paid in and when the account is in credit, interest will be paid. All standing orders will come off this account. When in debit, there will be interest charged.

"The combined card will be usable in restaurants, hotels and stores. It will also be a cash machine card. A personal identification number will yield cash or automatic statements. Credit will be authorised around the world by satellite transmission. Finally, there may be a major purchase card which could even arrange an automatic bank loan for certain purchases."

This may sound like science fiction, but the credit card experts view it as entirely feasible. The international competition meanwhile, is hotting up. The stakes are high and the technology available. It may be only a matter of time.

Development of the automatic teller

CASH DISPENSERS

IAN RODGERS

450 terminals installed in the New York City area.

Mr. Kovacevich doubted that there was much immediate cost saving in the installation of ATMs. "Just because you put in 450 machines doesn't mean you are going to save 450 tellers. In fact, we have had to hire more tellers because of the growth of our business."

Typically, the U.S. leads the world with at least 10,000 ATMs installed and many more on order. In this field at least, Britain's banks are surprisingly up-to-date, with some 460 extremely accessible machines installed and the number likely to double by year-end.

Other countries that have moved quickly to ATMs include France, Sweden, Canada and West Germany. Typically, an ATM is capable of performing most teller functions — accepting deposits, providing an account balance report, transferring funds from one account to another and

taking orders for cheque books as well as the principal cash dispensing function. (Citicorp has one ATM that dispenses travellers' cheques instead of cash.)

Not all banks offer all these services on their ATMs, however, and there are significant differences in the ways the services are managed and presented to the customer.

The most common system operates 24 hours a day and enables the customer to withdraw a pre-set maximum amount of money within a set period as well as performing any number of other functions, all on insertion into the machine of a plastic card that has an identifying magnetic strip. The customer verifies his identity by keying in a secret personal number. The ATM may or may not be one-line, that is, directly connected to central computer account files. Since withdrawal limits are preset, there is no need for the machine to check

before delivering the cash that the customer has funds in his account.

The most significant departure from this general approach is the one adopted by Britain's Lloyds Bank. Lloyds has built a totally on-line system and permits the customer to withdraw as much money as he likes as long as the computer reports that there are sufficient funds in his account.

"We are fairly original in what we are doing here," Mr. John Dunn, general manager of Lloyds management services division, says, "but we think this is the safest, most secure way of doing it. We can give a person a card irrespective of his credit rating."

Another advantage is that Lloyds can use basically the same system in its branches that it uses through the wall. Indeed, 650 of the 850 machines so far installed are inside branches.

The disadvantage is that the computer has to go off-line at night and on Sunday to perform other jobs and so Lloyds' dispensers operate only between 8 am and 9 pm Mondays to Saturdays inclusive. "We may extend this slightly, but we felt it covers the hours most people need cash," Mr. Dunn says.

Banks have also taken differing approaches to locating their

ATMs. For the most part they are through-the-wall of the bank branch, but to an increasing extent ATMs are turning up in shopping centres, transportation terminals and other high-density locations. However, in some countries, off-premises locations are prohibited.

So far, there has been little attempt by banks and other financial institutions to pursue new ATM developments together. Barclays and Lloyds are experimenting separately, with a simple cash-only variation of the ATM for use in branches. The machine is placed between the customer and the teller and activated by the customer ATM card. Provided that the machine authorises a withdrawal, the teller passes over the cash. The idea is to avoid the creation of a cheque or other paper voucher.

One significant step towards standardisation was the adoption by Visa a year ago of standard specifications for encoding a magnetic stripe on its cards. Visa also decided that all cards issued starting this year would have the new stripe on them and the conversion would be completed worldwide by April 1, 1982.

This does not mean, of course,

that all cash dispensers will accept VISA cards or that banks not participating in the VISA programme will adopt Visa's specifications for magnetic stripe encoding. Many bankers remain to be convinced that there should be a connection between credit cards and the cash dispenser card. "It is one of the options," said Mr. Paul Raguley, senior project manager in the domestic banking division of National Westminster Bank.

Later this year Barclays' dispensers will be able to accept Visa cards for withdrawal against the Visa account. Citicorp sets around the problem by allowing customers to make deposits from their Visa credit account to their bank account and then withdraw cash by using their ATM card. Lloyds provides a special version of the Access credit card that can be used in its cash dispensers.

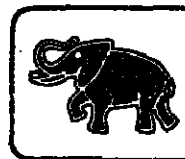
Several European banks have been having discussions about taking a common approach to ATMs but so far there has been little progress. At a national level German banks agreed last May to take a common approach using the Eurocheque card to activate ATMs, but in some other countries installation of incompatible systems is already well advanced.

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WORLD BANKING XXIV

Fresh competition may lead to shake-out

ONCE CONSIDERED doomed by the advance of credit cards, the \$300bn-a-year travellers' cheque business has suddenly attracted new competitors and may be on the verge of its first major shake-out in a century.

In America Interbank, the licensor of Mastercard, is finally about to join its main bank card rival, Visa, in launching its own brand of travellers' cheques. In Europe Barclays Bank has thrown in its lot with Visa while Midland Bank has agreed to sell 80 per cent of its Thomas Cook subsidiary to a group of European banks with a view to issuing Thomas Cook "Euro-travellers' cheques" in several new currencies.

A period of cut-throat competition is expected, with the most bitter battles occurring within the Visa and Interbank groups as member banks compete with one another to sell the same product.

Another early battleground could be France. Breaching its traditional policy to operate alone, American Express had agreed to issue French franc travellers' cheques in partnership with three French banks. France could also be the launching pad for the Euro-travellers' cheque as the six banks involved have already been named and a cheque design published.

The opening salvo in the current round of hostilities was fired by Interbank when it announced two years ago that it would launch a travellers' cheque to complement its bank card.

Citicorp, a member of the Interbank group, immediately sued Interbank, alleging it would have an unfair trading advantage over Citicorp within the group. The legal action effectively stalled Interbank in its tracks, member banks being afraid to sign up for fear of becoming entangled. However, the aborted launch sparked Visa to issue its own travellers' cheque, and Visa's entry, in turn, caused the Europeans to join forces.

"The object of the Euro-travellers' cheque," Dr Eckart van Hooven, a director of Germany's Deutsche Bank, explained at a conference in March, "is to prevent the market from being monopolised by non-European suppliers." All German banks have been enthusiastic promoters of the Eurocheque concept, not least

TRAVELLERS' CHEQUES

IAN RODGERS

because Germans travel abroad on a greater scale than other nationalities.

Earlier this month Citibank withdrew its legal action against Interbank because Interbank has decided not to be an issuer of cheques itself. Rather, following the Visa approach, it will license any of its 12,000 U.S. member banks that wish to become issuers.

American Express still dominates the market, with an estimated 50-60 per cent share. Citicorp and Bank America are second and third, although it is not clear in which order, and Barclays and Thomas Cook are fourth and fifth, although their order is not clear either. About 75 per cent of sales are in U.S. dollar cheques, with sterling a significant second.

People who buy travellers' cheques are in effect giving the issuer an interest-free loan which the issuer then invests as profitably as he can, based on his estimate of how long he will retain the money. At the end of 1979 American Express had \$2.3bn of travellers' cheques outstanding.

However, it takes a long time to build up a profitable float because most cheques are cashed fairly quickly. Meanwhile operating costs are high.

A few years ago many thought that the market would shrink as credit and bank cards became more widely used. But the entry of the two largest bank card issuers would seem to confirm other issuers' claims that the market is still growing rapidly, perhaps at 20 per cent a year.

The main way issuers compete with each other is in the terms they offer their selling agents, usually other banks. The variables are share of commission, discount on volume and deadlines for remittance (letting the agent use a bit of the float). Contests for bank tellers are used in some markets and Citicorp floated the idea a few months ago of actually paying interest to the travellers' cheque holder, although this would be difficult to administer and was widely interpreted as a red herring. Visa has tried to

attract banks to be agents by offering to print the bank's name prominently on the cheque.

It is difficult to get a feel for just how tough competition is these days. The combatants tend to hide behind the usual euphemistic phrases. "Competition has got a bit more severe in North America in the last few months," Mr. Patrick Bowden of Barclays says. "I think there is room for everyone, although there may be some changes in market share."

Abandoned

Mr. Michael Lively, president of American Express travellers' cheques, claims that "Visa's entry hasn't been extraordinary in terms of impact. It is rather modest so far but that is not to say that it won't be substantial in the future. We don't feel any more pressure on margins than in the past five or six years."

Mr. Dee Hock, the president of Visa, has predicted that Visa will take 10 per cent of the market in 1980, which should not be too hard since Barclays alone is in that vicinity already. Mr. Hock has also predicted that Visa would have a 40 per cent market share by 1985 and even Barclays' Mr. Bowden admits that is an optimistic forecast.

Mr. Jeffery Neubert, vice-president of Citicorp, said competition has been tough for a long time. He recalled that Thomas Cook two years ago took away Citibank's largest U.S. agent, the American Automobile Association. "We were asked to bid against Thomas Cook but we decided not to because on terms like theirs it would not have been profitable for us."

Competition within Visa could also be stiff. Basically any bank can be an issuer of Visa travellers' cheques, which means that it prints the cheques, manages the sales, and of course collects the float. And there are no territorial operating restrictions. Barclays, for example, is very actively recruiting U.S. banks to be sales agents for its Visa cheques in competition with First National Bank of Chicago, Wells Fargo and Company and many much smaller

issuers, such as Golden Pacific National Bank of New York.

Golden Pacific has already been the object of a potentially thorny problem in the Visa approach. When confronted recently with one of its cheques to be cashed, a UK bank wondered whether a Golden Pacific Visa cheque had the same reliability as a Barclays Visa cheque. In fact it is backed only by Golden Pacific, although in the event of a problem Visa would probably come to the rescue to avoid bad publicity.

A more substantial question is whether Golden Pacific and other little known institutions that have become Visa cheque issuers will find the business a profitable one worth staying in.

Most observers doubt it, and they suspect Barclays as the only Visa issuer with experience and significant international acceptance in the business, will be the one these banks and Visa will turn to to bail them out. "I would think Barclays is in the best position of any of the Visa issuers," Mr. Lively says. "They have been in the business for a number of years."

Asked why Barclays gave up its own well-established travellers' cheque in favour of the Visa cheque, Mr. Bowden said, "We see the Visa name as an advantage in the long term."

Interbank hopes to avoid some of the problems that have faced Visa by having a central printing and processing organisation but it will inevitably have a number of little-known issuers. Among its committed members, for example, are Seattle First National Bank, Continental Bank of Chicago and National Bank of Detroit.

The approach of the Thomas Cook Eurocheque consortium should avoid both the acceptance and internal competition problems. The idea is for a bank or group of banks in each country to buy an interest in the existing company and thus share in the benefits of its current lines of cheques. In addition, any participating country may issue and guarantee cheques in its own currency. These cheques would also be sold by the Thomas Cook Eurocheque agency banks throughout the world. The new system is intended to come into operation by next spring.



Dr. Eckart Van Hooven

Mr. Dee Hock

Mr. John Reed

Three men at the top

Van Hooven Deutsche Bank

DR. ECKART VAN HOOVEN, board member responsible for retail banking at Deutsche Bank in West Germany, is the architect of the Eurocheque and related European payment systems. He is very much at the centre of the controversies which rage in the world of banking payment systems. He is often portrayed as a man who believes in a closed shop and limited competition in retail banking in Europe. He is seen as the great critic of Visa- and Visa in turn has become the great critic of the Eurocheque systems.

Dr. Van Hooven studied law at Hamburg after the war, and joined Deutsche Bank at the age of 30. He would have preferred to join the German diplomatic service, he says.

When the UK banks first started experimenting with personal loans in the late 50s, Dr. Van Hooven was appointed by Deutsche Bank to look into this phenomenon. It was partly as a result of his initiative that the German banks announced a joint personal loans scheme in 1959.

Things have changed a lot since then. Today, over one-third of Deutsche Bank's loans are personal.

Deutsche Bank introduced a cheque guarantee card in 1968. Dr. Van Hooven became concerned that there would be a proliferation of similar cards both in Germany and throughout Europe. As a result he came up with the concept of the Eurocheque. The idea has undoubtedly been a great success and has contributed in a small way to making travelling easier within Europe.

Once the Eurocheque was operating Dr. Van Hooven saw other opportunities. He was behind the development of the Eurocard, and most recently he was minded to purchase the Thomas Cook travellers' cheques division by European banks to serve as the basis for the proposed European Travellers' Cheque.

He describes his interest in

European payment systems as "a hobby," but it is clear that he is fascinated by some of the possibilities which exist in this area. At this year's World Convention of Payment Systems, he was the dominant personality present and made no secret of his opposition to Visa and Interbank, with what he referred to as their "global comprehensive payment systems."

Critical as his competitors often are of his actions and motives, most are prepared to say that Eckart Van Hooven is the key figure in retail banking in Europe at the present time. He could be seen as the European equivalent of Dee Hock and John Reed rolled into one.

Dee Hock Visa

DEE HOCK, president of Visa International, the worldwide payment systems organisation, is one of the outstanding personalities of the world of retail banking. To a large extent Visa is his own creation. His personality is stamped on almost everything the organisation does.

Mr. Hock now 51, first came into contact with international payment systems when he worked at the National Bank of Commerce, Seattle in Washington State. This bank was one of the six original licensees of Bank of America's credit card. He was instrumental in the transformation of B and A's card into a U.S. payment system membership corporation, or co-operative called Visa in 1970. Four years later he helped to create Visa International, becoming its first president.

Mr. Hock sees Visa International as an organisation without precedent. "It is controlled by no member, country or religion, and is governed by directors from throughout the world. Its purpose is to create a worldwide system for the exchange of value."

Dee Hock has strong convictions about international payment systems. He sees the world as a single economic unit, and explains that Visa International recognises this. "There is an increasing need for means

of exchanging value which transcends boundaries."

The stories told about Dee Hock are many. A senior official of the rival Eurocheque organisation recently suggested that it was Dee Hock's ambition to build Visa into the largest bank in the world without ever having to build or buy a branch office. The very idea is dismissed by Hock: "As a matter of policy Visa will never engage in any financial services in its own right," he declares.

Mr. Hock's recent absence from work on a four-month holiday encouraged speculation about his future with Visa, amid suggestions that some of Visa's member banks were getting worried about the direction the organisation was taking. But he simply needed a rest and is now firmly back in the driving seat.

Mr. Hock says he is not particularly well paid by U.S. banking standards for what he does, and he has no service contract. But he has come a long way since he left school at the age of 14 in North Ogden, Utah. His family was poor and a university education was out of the question. What motivates such a man? "I guess I believe the little guy should have a chance," says Mr. Hock.

Visa, with its credit cards and travellers' cheques, is certainly well placed to bring previously restricted banking services to the man in the street, whether he be in Birmingham, San Francisco or somewhere in Japan.

John Reed Citibank

JOHN REED, the man in charge of all retail banking operations at New York-based Citibank, is one of the top Citibank men at the bank. He took over responsibility for Citibank's retail business five years ago, at the young age of 36, and is now halfway through a 10-year plan to expand the bank's retail business to a stage where it will be contributing around a quarter of Citibank's earnings.

After taking his masters degree at Massachusetts Institute of Technology he was lucky enough to get a job with Citibank in overseas planning. The man in charge of this area of the bank's business at the time was Mr. Wainwright, now chairman of Citibank. He was obviously impressed by Mr. Reed and clearly had a hand in his rapid promotion thereafter.

It was in 1974, when international banking was going through a crisis period, that Mr. Reed was virtually given a year off to study Citibank's involvement with retail banking. He concluded in a report to the board that the bank should either commit itself strongly to the business or get out of it altogether. In 1975 the board decided that Citibank would stay and build-up the business. John Reed got the job.

Today Citibank was some 30 independent business units reporting to six divisions in the retail banking field. Roughly half of these are outside the U.S. and Citibank is probably the largest international retail bank in the world. It has substantial operations in W. Germany, Hong Kong, Puerto Rico, Belgium, Australia, and Brazil. Smaller operations exist in other countries including the UK. The distinguishing feature in all of these is that they sell retail banking services only. "We're dedicated to serving the consumer," comments Mr. Reed.

John Reed differs from the banking stereotype in several ways. He is one of the youngest men to reach the top of a major bank, he is obviously fascinated by what he is doing, and most extraordinary of all he is open. He does not mind admitting that Citibank has made its mistakes - in not yet getting into the UK retail banking market in a big way, for example. "We had management problems," he explains, "but things have now been sorted out. We would make an acquisition if we could find something suitable. I would buy 100 branches from the clearers if they would sell."

John Reed speaks highly of both Mr. Dee Hock and Dr. Van Hooven but Citibank remains totally opposed to co-operative style payment systems like Visa, Interbank, and Eurocheque. Citibank will remain independent of these organisations, he says, unless it has no alternative.

Michael Lafferty

A bank with 10,000 branches in France knows a lot about growth.



Crédit Agricole was founded in 1894 to meet the growing needs of the French farm community through a decentralised, co-operative banking structure. Today, with over 10,000 branches, Crédit Agricole plays a leading role in the development and financing of every sector of French agribusiness.

The International Division of the Caisse Nationale de Crédit Agricole (CNCA), operating on the international financial market, provides its customers with a full range of services for foreign transactions and international business. Crédit Agricole's dense network facilitates all banking operations in France for its foreign correspondents. The CNCA is officially associated with the leading European co-operative banks under the name "UNICO Banking Group" and is linked to the Swift network. The CNCA finances the international commerce of agricultural products and all related agribusiness operations, such as agri-industrial complexes.

For more information about French agribusiness and Crédit Agricole International, write to: Caisse Nationale de Crédit Agricole, International Division, 91-93, bd Pasteur, 75015 Paris, France. Tél. 320.52.02. Télex 250002-CACREDI 250002 F.

#2 in the world. #1 in the earth.

*Reference 1979 Banker classification.

International Division
CRÉDIT AGRICOLE

Electronic revolution still has a long way to go

EVERY HOME will one day have its own computer terminal through which people will be able to do all their banking, shopping and bill paying.

Money will be replaced by plastic card with a magnetic strip storing information relating to its owner.

The introduction of point of sale terminals in supermarkets and other retail outlets is a step towards this electronic tomorrow.

Point of sale terminals, as defined by the banking community, are electronic cash registers, which allow the customer to pay his or her shopping bill by directly debiting an account.

Despite the fact that electronic cash registers are now common sights in many supermarkets, the day when they will be connected directly to banks seems a long way off because of the social and legal problems.

Several experiments are taking place in Europe. In Bourg-en-Bresse, near Lyon, the Banque Nationale de l'Ain, a subsidiary of CIG, is carrying out a very ambitious project.

About 100 retailers are linked to a central computer supplied by the U.S. company IBM and plastic cards have been delivered free to 3,000 customers.

Neither customer nor retailer have to pay to be part of the network which means it can be judged only on the amount of use that is made of it.

Swedish savings banks also have an experimental system, called the Eklings scheme, which has 50 point of sale terminals in two towns linked to an existing network for automated teller machines. The scheme involves both super-

POINT-OF-SALE TERMINALS

ELAINE WILLIAMS

markets and petrol stations using credit cards and oil company cards.

A similar scheme covers petrol vending at Knokke, in Belgium. A few other schemes, limited to petrol stations, are also in existence. Another large point of sale experiment is planned for Britain involving 1,000 terminals.

Underlined

Although there has been a lot of interest in the U.S. in point of sale terminals, the definition of the system is slightly different. Most banks tend to regard the system as an instant method of authorising cheque transactions rather than an electronic funds transfer system to replace cheques.

Experiments using conventional point of sale terminals have not had very encouraging results and most have been abandoned.

But the U.S. banking system is different from that in Europe. The large number of banks and the high degree of competition makes it difficult for banks to co-operate on a State or national scheme. Anti-trust legislation also restricts co-operation, and even the larger banks are reluctant to invest the large sums required to set up point of sale systems.

In any system which is set

up on a commercial basis, a set of charges have to be levied on both the retailer and the shopper. A decision also has to be made on whose responsibility it is to install the electronic equipment which is required to form the link between the supermarket terminal and the bank's computer.

Another problem still to be resolved is the equipment itself. Because retailers have already invested a lot of money in electronic cash registers, they favour the use of a small add-on unit which would provide the necessary link to the bank.

But banks tend to favour a special point of sale terminal, which would be more expensive. If they have to install and maintain the equipment they will also prefer to choose the type of terminal.

A recent study by Pictel, part of the F.A. International group, estimated that European banks will spend about \$1.45bn (£448m) this year on electronic equipment including automatic tellers, computers and communications equipment. Only \$1m of the total will be for point of sale terminals, which underlines the fact that this is very much an experimental area.

Even in 1985, when total spending will reach \$2.1bn, point of sale will account for

a mere \$7m. Pictel says that while point of sale terminals are likely to be introduced in most countries they will not have a major impact on overall payments traffic during the 1980s.

Cash will continue to be the dominant payment medium, with about 60 per cent of all payments over \$10 being by cash in 1990, although the use of cheques and credit cards will continue to grow.

In addition, safeguards have to be built into the system to protect the customer and the bank from fraud.

In Britain, banks have realised that any point of sale system should be a national one.

Development is shared by the clearing banks. Barclayscard, Access and the Trustee Savings Banks which set up a special working party to work out the details of a suitable system. After several months' work they produced a huge document amounting to 200 pages, which had to be delivered by forklift truck.

The working party has proposed that a pilot experiment involving 1,000 terminals should be working in a UK city within two years. A decision on where and when will be made in September.

It is estimated that the total investment cost for a national scheme would be around £200m - which no bank would care to fund alone. Such a system would also have to be cheaper than the cheque system. British conservatism towards new technology means that it would probably be several years before the network would pay for itself.

مكتبات الأصيل

Large-scale finance for a growing clientele.

Among Germany's internationally active banks, DGZ, Deutsche Girozentrale - Deutsche Kommunalbank -, ranks high on the list.

With a balance sheet total of more than DM 21 billion, unencumbered by the heavy day-to-day demands of a retail branch network, DGZ is ideally equipped for wholesale lending on an international scale.

The Bank's growing corporate and public sector clientele has come to appreciate the financial knowhow and flexibility of DGZ's compact management team. Main financing emphasis is on DM fixed-interest loans, export financing and credits in various currencies.

The Bank's wholly-owned Luxembourg subsidiary, Deutsche Girozentrale International S.A., has built a solid reputation as an active Euro-market partner for money market operations on a global basis, foreign exchange transactions and in the Eurocredit sector.

As a major issuing house in the domestic market, the Bank is also a respected partner for international loan syndication and Euro-bond issues.

Financial Highlights 1979	DM million
Balance Sheet Total	21,285
Due from Credit Institutions	6,469
Debentures and Bonds	3,117
Receivable from Non-Bank Clients	10,649
Fixed Assets	102
Deposits from Credit Institutions	6,467
Deposits from Non-Bank Clients	1,020
Own Debentures in Circulation	12,765
Capital and Published Reserves	385
Surplus from Interest and Commissions	90
Personnel and Administrative Expenditures	33
Taxes	24
Net Profit	19

DGZ is a "banker's bank" within the German Savings Banks Organization in which it is the sole member institute on the federal level. This position combined with expert liquidity management enables the Bank to play a substantial part in large-scale international financing, wherever it is required.



**Deutsche Girozentrale
- Deutsche Kommunalbank -**
FRANKFURT · BERLIN

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the "small" team with big resources

One Australian Bank recently handled \$100m trade payments between Australia and the People's Republic of China.

One Australian bank provided a major international company operating in Indonesia with over \$50m to assist in the purchase of Australian manufactured goods.

One Australian bank has more than 1000 people working outside Australia assisting international business.

One Australian bank provides much more than money—it also provides over 160 years' experience and does business right around the world.



One Australian bank is assisting with the finance of three refrigerated vessels to transport Australian beef to South Korea.

One Australian bank is helping the Philippines build an aviation and aerospace industry which will include the purchase of Australian Nomad aircraft.

One Australian bank has offices in London, Tokyo, Singapore, Jakarta, San Francisco, New York, Frankfurt, Bahrain, New Zealand, Fiji, New Hebrides and other islands of the Pacific, subsidiaries in Hong Kong and Papua New Guinea... and over a thousand branches within Australia.

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Australia's International Bank.

Special ships for special needs: Meet NYK's new heavyweight champ.

NYK's Wakagiku Maru is a super-heavy lifter equipped with a 500-ton derrick. It also has a set of 31-ton twin traveling cranes, two sets of 20-ton standard cranes and a set of 25-ton twin derrick cranes. On its maiden voyage in February 1978, it carried 20,000 tons of plant equipment from northern Japan to the Persian Gulf.

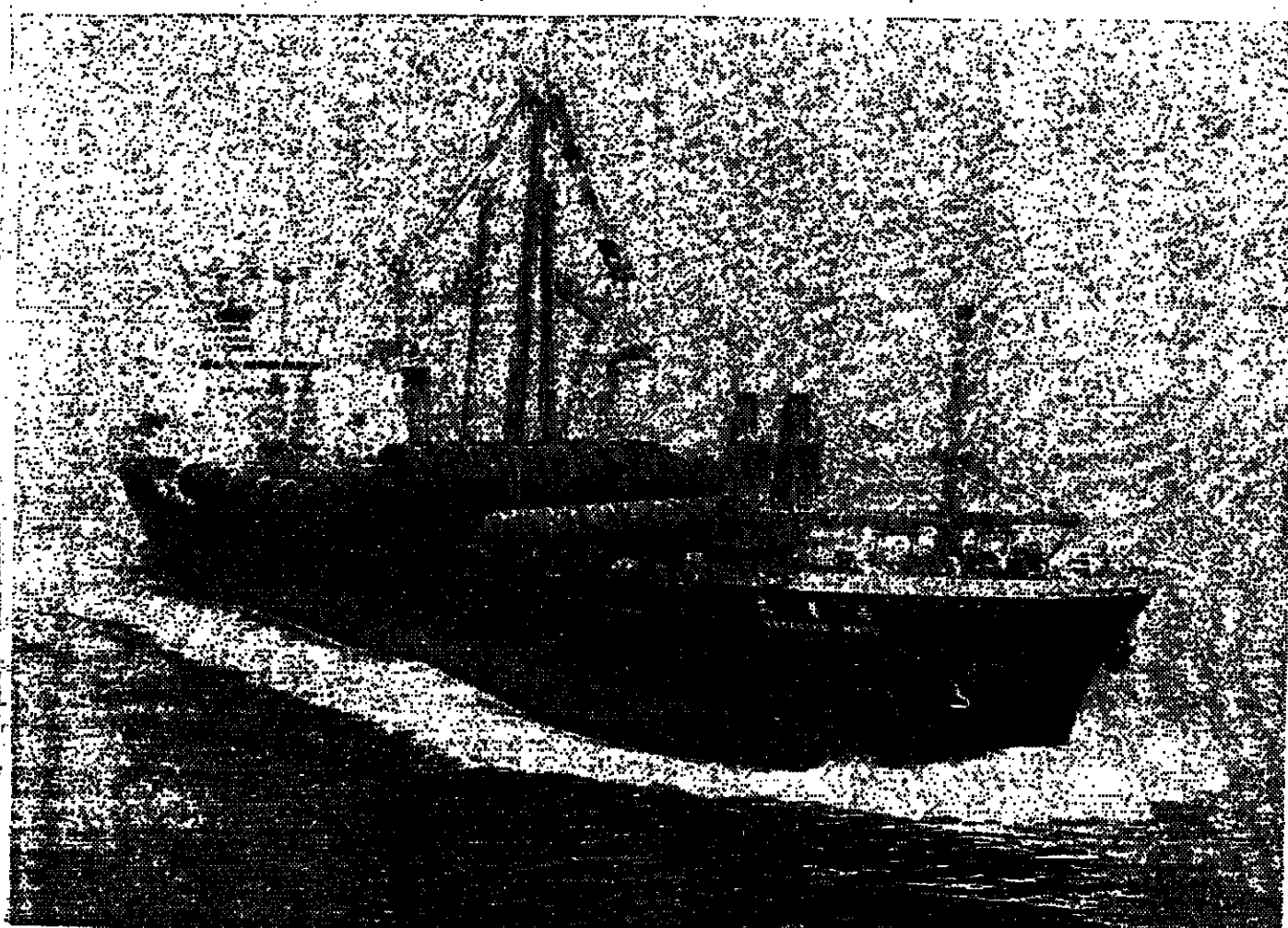
With the growing trend toward export of complete industrial plants, there is much demand for heavy lifters to transport huge plant equipment to oil-producing and developing countries. NYK's fleet of seven heavy lifters with a capacity of more than 100 tons each, is well-qualified to meet this growing need.



Other NYK specialty ships include those designed to transport industrial plants, pulp, logs, mineral ores, L.P.G., and crude oil. The company is always Japan's pioneer in containerization, with six main routes now containerized.

By keeping up with the times in these and other ways, NYK has demonstrated a remarkable growth record throughout its 90-year history. As world trade expands and trading patterns change, NYK's versatile fleet is able to adjust to these changes quickly and efficiently. Resulting in

better, more economical services for our customers around the world. If you have a special shipping problem, NYK may have a special solution.



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140

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Campaigns to attract the unbanked

IN THEIR search for new customers the banks have launched some skilful marketing campaigns to attract such unbanked groups as young people generally and students in particular, wives, and weekly paid manual workers. In much of the Western world they have been very successful—though there are some notable exceptions.

In France, West Germany, Holland, Canada and the U.S., for example, more than 90 per cent of all adults have at least one bank account and the attitude towards money matters is highly sophisticated.

In contrast, the market penetration in countries such as the UK, Italy and Spain is much lower. According to the Inter Bank Research Organisation, just over 50 per cent of the adult population in the UK had bank accounts in 1976, while in Italy and Spain, the figure falls below half.

The banks have evidently been making some headway because this figure had risen to 53 per cent by the end of 1979. AGB reveals that nearly 40 per cent of the UK banked adult population are with the Big Four—Barclays, National Westminster, Midland and Lloyds.

The relatively low penetration is attributed mainly to the system of weekly wage payments; almost 80 per cent of manual workers are still paid in cash.

This contrasts markedly with other European countries such as France, Holland and Belgium, which since 1965 have largely dispensed with the system of weekly wage payments—a development achieved through both government and bank initiatives.

In France, where less than 30 per cent of wage-earners receive their remuneration in cash, the lead came from the Government as part of a package of measures designed to reduce social divisions.

In Belgium the significant growth in the use of the financial In the UK, the relative un-institutions, which have mounted intensive publicity campaigns, created a dense network of branches and introduced the cheque guarantee card.

Commercial banks hold more than half the number and total value of current accounts in the country, followed by the post office, public credit institutions and private savings banks.

Research by the bank for International Settlements (BIS), published earlier this year, provides a fascinating and

MARKET PENETRATION

ARNOLD KRANSDORFF

detailed insight into the market penetration of retail banks. In many cases however, its statistics are not strictly comparable, so conclusions have to be treated cautiously.

BIS reveals, for example, that the UK and Italy, both of which rate low on the scale of "banked" countries, have fewer bank offices per head of population than other major industrial countries.

In the UK there are more than 17,000 bank offices (including building societies but excluding post offices), each serving a population of more than 3,000. In Italy there are fewer offices—just over 12,000—with each one serving more than 4,500 people.

France, which is less densely populated than other European nations, has roughly twice as many bank offices as the UK, each serving about half as many people.

In Germany there are even more banking offices—almost 44,000—each catering for a population of about 1,400, slightly more than Switzerland, which has about 4,700 bank offices.

The best ratio of bank offices to population belongs to Belgium, one of the most densely populated countries in Europe, where there are just over 1,000 people per bank office.

Across the Atlantic the U.S. has more than 90,000 bank offices each serving almost 2,400 people, while Canada has more than 13,000, each serving slightly less than 1,800 people.

An examination of the types of bank account held around the world shows that in Belgium, France, Italy, Holland and Sweden, more people hold deposit accounts than current accounts, while in the UK and Germany the position is reversed.

Taking Sweden, for example, out of every 1,000 account holders, around two thirds hold a current account while each holds at least two deposit accounts.

In the UK, almost all account holders hold a current account but only one in three hold a deposit account, while in West Germany, about three quarters of account holders have current accounts and only a few—just over 10 per cent—have deposit

accounts. In the UK, just over a third of adults hold some form of account with a commercial bank only, around a tenth with national savings banks and roughly 5 per cent with a building society only. About a quarter of adults hold more than one type of account, while a fifth hold none.

One of the more curious aspects of the UK banking system is that it does not allow interest on current account deposits, yet current accounts are more popular than deposit accounts.

Another unusual aspect of the UK banking system is its preference towards lending to industry as opposed to individuals. It is a fact that only a fifth of personal deposits with the clearing banks are lent back to people by the banks.

This compares with about 60 per cent in Canada and nearly three-quarters in Holland.

This can be partly explained by the fact that UK banks do not provide housing loans to any great extent. In the UK house loans have traditionally been provided by building societies, which is why bank customers have about 10 times as much money on deposit with the building societies, which offer competitive rates of interest, with the banks.

South African banks also stand clear of the home loans market, but banks are the main source of housing finance in Australia, and in Canada the banks compete directly with trust and mortgage institutions.

In the U.S. banks play an important role in house purchase although the market is still dominated by savings and loan associations.

In Japan nearly all lending to the personal sector goes towards house purchases, a pattern repeated in Sweden, Holland and France.

Cash is a relatively small proportion of the value of payments in most countries, although it accounts for the largest number. As countries become more sophisticated in their money systems this is gradually being eroded by cashless systems such as credit cards and giro payments.

According to BIS, there are already indications that some cashless paper means of payment might before long be recognised as enjoying similar privileges as mandatory or recommended payment instruments.

Direct crediting and debiting for bulk and recurrent payments are emerging almost everywhere, it says, and credit cards and debit cards appear to be assured of a future in those countries where transfer and giro organisations are less developed and fewer liquid assets are held available.

Committed to expansion

SAVINGS AND CO-OPERATIVE BANKS

RAY MAUGHAM

THE SAVINGS and co-operative bank movement has been through many changes throughout the world in the post-war years. Founded initially to attract day-to-day savings from the lower paid and, in the case of co-operatives, to assist the local agricultural community, the banks have expanded their range of services in competition with the commercial sector without losing the essence of their regional favour.

In Britain, the process of savings bank expansion is just beginning as the Trustee Savings Banks start to compete with the clearing banks. If the evolution of the UK savings movement has been very much slower than that of its overseas counterparts, the pattern is almost the reverse of events in Europe, particularly in West Germany and the Netherlands.

In both these countries the commercial banks were virtually oblivious to the private customer before they woke up to the need to compete with the deposit banks. In the UK the clearing banks are now starting to attack the savings banks and Dutch savings and co-operatives banks have had to withstand incursions from the commercial sector. Broadly speaking they have survived and flourished.

The financial sector in West Germany is notable for the strength of the deposit-taking institutions. The three main constituents of this sector, the commercial banks, savings banks (or Sparkassen) and credit co-operatives, may well be described as universal banks for they all provide a range of services which extends far beyond the range of a typical deposit bank. One need only look at the growth of West Deutsche and Bayerische Landesbanken, for example, to understand the international position of the West German savings institutions.

In common with the banking community in West Germany as a whole, the savings banks and co-operatives have centralised over the past 80 years. The number of credit co-operatives has fallen by more than half to about 6,000 banks and the number of savings banks by around a quarter to some 600 Sparkassen.

That might nevertheless still imply a vastly greater level of competition than seen in the UK. The largest clearing bank, the National Westminster Bank, operates from 3,200 branches in Britain but the point about the European savings banks and co-operatives is their regional and determination not to poach of each other's territory.

Their growth, however, has been nurtured by the extension of their services from a limited base and by the establishment of regionally- and nationally-based central institutions to harness the resources of their members. Centralisation has allowed them to swap liquidity, for example, and to enter the market for "jumbo" loans. The DG Bank, the central co-operative bank, has become very active in the Eurobond and syndicated Eurocredit markets.

The savings banks in West Germany operate a total of around 17,000 branches and, with very few exceptions, are linked with the local and regional authorities which assume ultimate liability for them.

An examination by the Inter-Bank Research Organisation into banking systems abroad found that savings banks and co-operatives provided about 75 per cent of the West German savings bank's resources.

Most funds are provided by individuals and about half the savings banks' claims are in the form of long-term loans particularly for housing finance and for local authorities' capital expenditure.

The organisation of the credit co-operatives is on very similar lines. They have in aggregate about 15,000 offices and, although small individually, they add up to significant national coverage. The strength of the system, mirrored throughout much of Europe, rests with their close local ties with customers. They have shown rapid growth in the past decade or so relative to the commercial and savings banks and, like the latter, most of their funds are on-lent to other financial institutions, principally to their own DG Bank.

Deposit-taking institutions also predominate in France. The savings banks, although not allowed to lend freely to personal and corporate sectors have extended their services in much the same way as the TSBs in Britain are now attempting. They offer mutual fund management, insurance services, financial advice and trust business.

The French savings bank structure is similar to that of many other European countries in that it falls into two categories. The National Savings operates through the Post Office branch network offering its services to small customers while the ordinary savings banks are associated with local authorities. Both operate pass-book accounts and special savings accounts for house purchase.

In many ways their supervision has reflected that of the TSBs in that the majority of savings have been compulsorily placed with Caisse des Dépôts, home loans have been granted with the approval of the Caisse des Dépôts et Consignations and, in return, the savings banks have enjoyed certain fiscal advantages.

The mutual and co-operative banks in France fall into three main categories. The "popular banks" have a central institution which administers their funds and carry out the full range of banking functions. The agricultural credit banks, fuelled by the rising prosperity of the French farming community and the monopoly they enjoy in distributing subsidised credits to farms, have grown quickly in the past 30 years and have extended the total banking function to regions which had previously lacked sophisticated financial services.

Structure

The mutual credit banks have no particular historic specialisation but engage in consumer, agricultural and commercial banking. They include the agricultural banks which do not affiliate to the National Agricultural Credit Bank (which has about 3,000 local banks and some 90 regional banks) and other mutual institutions. Like the agricultural co-operatives they have a three-tier structure of local, regional and national levels and adhere to the common pattern in having central institutions which provide services to the group as a whole.

The savings and co-operative banks in the Netherlands have had to respond to the expansion of services offered by the commercial sector. The Dutch banking system is a combination of the European model and the British structure. The investing institutions have far greater influence in Germany and France just as they do in the UK. On the other hand, the agricultural co-operatives play very much the general role of the commercial banks.

Again, the process of consolidation by merger is very much evident. In 1972, for example, the two previously independent co-operative agricultural systems joined forces. The agricultural co-operatives, or Rabobanks, were largely established in the last century, run by their members and making loans to local farmers and to rural artisans and traders.

The Centrale Rabobank was formed in 1972 on the merger of the Coöperatieve Rabobank (Utrecht) and the Coöperatieve Centrale Boerenleenbank (Eindhoven), but before this, the effect of post-war industrialisation had been to extend the Rabobanks' basic business to include loans to industry, part of which is unsecured credit on an overdraft basis, mortgage loans and, more recently, consumer credit.

They appear to have been successful in maintaining market shares in the face of commercial sector pressure, entering the urban areas, providing current account facilities and joining with the commercial and savings banks in setting up the bank giro system. Again, there are parallels with what the TSB is now trying to do: the Rabobanks offer insurance broking and travel agency facilities for example.

They have not, however, been so successful as the Rabobanks in resisting the encroachments of commercial rivals. In the decade to 1975 their share of total savings deposits declined from 27 per cent to 22 per cent although, they have recently been attempting to reverse the decline by introducing a wider range of facilities. Consumer credit and current accounts are among the newer innovations.

The movements' own commercial banks—the Bank der Bonds-sparbanken—has been set up in the last few years to operate in the money market where it employs the savings banks' excess funds.

In the main, the success of savings banks and co-operatives in the Continent of Europe provides some clear guidance for the British TSB in its expansionary effort. In general, they have managed to have their cake and eat it. Their regionalism has maintained local customer loyalty, the European banking community has communicated the need for their services to a far greater proportion of the population than their British peers and the mutual organisations have played a full part.

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Aiming to rival the banks

THE ONCE-CLEAR demarcation line between banks and Post Office giro systems in the funds transfer business is becoming increasingly blurred.

Many of the world's Post Office giros, established to provide efficient, cashless fund transfers, have been rushing to introduce savings accounts, personal loans, cash dispensers and other services that make them look more and more like banks.

"We would be happy to be seen as a bank," says Mr. Sam Wainwright, managing director of Britain's recently renamed National Girobank. "We regard ourselves as a bank and we behave as a bank."

Meanwhile, banks are introducing increasingly sophisticated and integrated clearing systems to reduce the movement of cash and other paper records, thus imitating the postal giro philosophy of centralising the book-keeping associated with fund transfers.

In a few countries, moves are under way to integrate the banking and postal sectors. In Sweden, for example, where the postal giro system has 15.4 per cent of all bank accounts and manages 34.5 per cent of funds held by financial institutions, integration with the banking system has been formalised since 1974 when a contract was signed between the postal giro and the government-owned PK-Bank for exchanges between the two payment circuits.

In Holland, consultations under the direction of the president of the central bank began in 1975 among the banks and postal authorities with a view to integrating the country's three payments circuits, but giro officials expect no results in the near future. In Britain, where the Giro has been established for only 12 years, talks are believed to be under way aimed at having giro join the commercial banks' clearing systems.

Finland's Postipankki comes nearest of all giro systems to being a full commercial bank. All Government departments, local authorities, banks and large businesses have giro accounts and almost all banking transactions are made

POST OFFICE GIRO

IAN RODGERS

through giro. Unemployment benefits are paid into giro accounts and a wide range of deposit and savings services is offered.

In other countries, however, the competing payments circuits seem to be remaining resolutely independent. In Japan, for example, a new electronic postal giro is being set up independent of the banks. When completed in 1984, it will be the largest money transmission system in the country.

Different countries have different ways of delivering transactions from one circuit to another, but it often involves the postal giro having a special relationship with one bank. Apart from these trends, it is difficult to generalise about the world's giro systems. The only universal characteristic is that they are based in the national post office with a view to using its vast distribution network to provide various financial services.

Forbidden

In Italy, for example, where banks are forbidden to promote their services directly to potential customers, the post office has long dominated the personal banking sector, with 65 per cent of all savings accounts in its 13,459 branches. However, its share of the current account market where customers are mainly corporations, remains an insignificant 5.1 per cent.

In Switzerland, the pattern is reversed with the post office forbidden by law to offer savings accounts or grand overdrafts. The result is that the Swiss postal giro operates more as a funds handler, processing 90 per cent of all non-cash transactions, than as a repository.

Like the Italian Post Office, the Japanese Post Office has offered mainly savings accounts on which it is not possible to draw cheques or effect credit

transfers. As of September, 1978, it held 41,300 billion yen or 15.3 per cent of total deposits and savings but had a comparatively small role in funds transfer systems.

The importance of giro systems in different countries varies widely. The largest system is in France, with 48 per cent of all accounts and 31 per cent of all deposits. In West Germany, the postal giro has 7.8 per cent of all accounts and 5.9 per cent of deposits. The Dutch system is one of the largest, with 65 per cent of all accounts and 46 per cent of deposits. The relatively new British system already has 22 per cent of accounts but only 3 per cent of deposits.

The first European giro was founded in 1833 in Austria. Most of the 13 systems operating in Europe began in the years leading up to, or shortly after, World War II. Many had a near monopoly on personal banking and grew rapidly at least until banks started showing interest in the personal sector in the 1960s. The number of transactions handled by the French giro, for example, has been declining steadily since 1970.

Post giro systems never got established in North America and, with well developed commercial banking sectors and deteriorating postal systems in the U.S. and Canada, there is little chance of them starting in the future.

Many post offices are issuers of large amounts of cash on behalf of their governments, for pensions and various other social security measures. To balance their outgoings they find it advantageous to have their giro compete for large cash collection accounts, notably from retailers. Britain's Girobank, for example, attracts more than £14bn a year in corporate deposits and is vigorously pursuing more.

Many also offer to make part cash credit transfers. The German Post Office has developed a crossed money order to enable businesses and government agencies to deal with many customers who do not have a giro account. The payer submits a magnetic tape to the post office which prints out the data on money order forms and then debits the payer's account and posts the orders to the payees.

The postal giro systems have no strong international association but they co-operate in some customer services. For example, money can be transferred to and from any of 20m giro accounts in Western Europe and Japan. The giros also offer a variant on travellers cheques called postcheques which, when supported by a guarantee card, can be cashed in the local currency in the post offices of most European countries.

Spending on big scale

COMPUTERS

ELAINE WILLIAMS

BANKS IN EUROPE will spend \$1.45bn (£648m) on new automation equipment this year. About \$600m will go solely on computers.

The history of computers in banking goes back to the late 1950s when computer manufacturers were finding the first applications for their machines outside the scientific fields.

At first the machines were used only for accounting at head offices. But the falling cost of microelectronics — through the development of the ubiquitous silicon chip — produced generations of computers which were smaller and cheaper, allowing banks to widen their use of computing.

They placed computer terminals in branch offices to allow access to centrally sorted information at head office. Banks now spend an average of \$75,000 per branch on new equipment.

Electronics equipment allows banks to become more efficient as they widen their range of services to the customer, and to increase productivity without increasing staff.

Double

With overall investment in new equipment such as automated teller machines, electronic cash dispensers, point of sale terminals, computers, and terminals for inputting data, expected to double by the 1990s manufacturers have to be aware of the specific needs of banks.

Unfortunately for manufacturers banking procedures vary widely between countries. Even within the same region rival banks will have different ideas on how to use technology so manufacturers have to watch for trends.

According to Pactel, part of the PA International group, which recently carried out a survey of banks' use of computers and telecommunications there will be changes in banking attitudes during the 1980s. Pactel says banks will "shop around more." Instead of using a single supplier to meet their needs, banks will choose equipment from several suppliers to form new systems.

With the move towards decentralisation of bank services, branches will need more

sophisticated terminals and communications links to the central computer than they have now, Pactel believes. Programmes will also have to be more comprehensive to allow branches to offer the wide services which will be demanded of them.

As bank automation grows — about 22 per cent of teller positions in Europe are now automated — staff will be employed to provide more personal advice services to customers. This will mean a heavy growth in computer terminals which are placed in the front office rather than away from the customer, says Pactel.

In addition, more so-called "front office terminals" for things like account inquiries will be entirely at customers' disposal. Pactel says the number of front office terminals will double to more than 200,000 by 1985.

The automation of customer contact — points through automatic teller machines (ATM) and other terminals will reach near saturation in some countries, in the latter half of this decade, the survey says. It forecasts that the number of machines will increase from about 400,000 in 1979 to about 550,000. Most of the growth will be accounted for by consultancy for private and corporate customers.

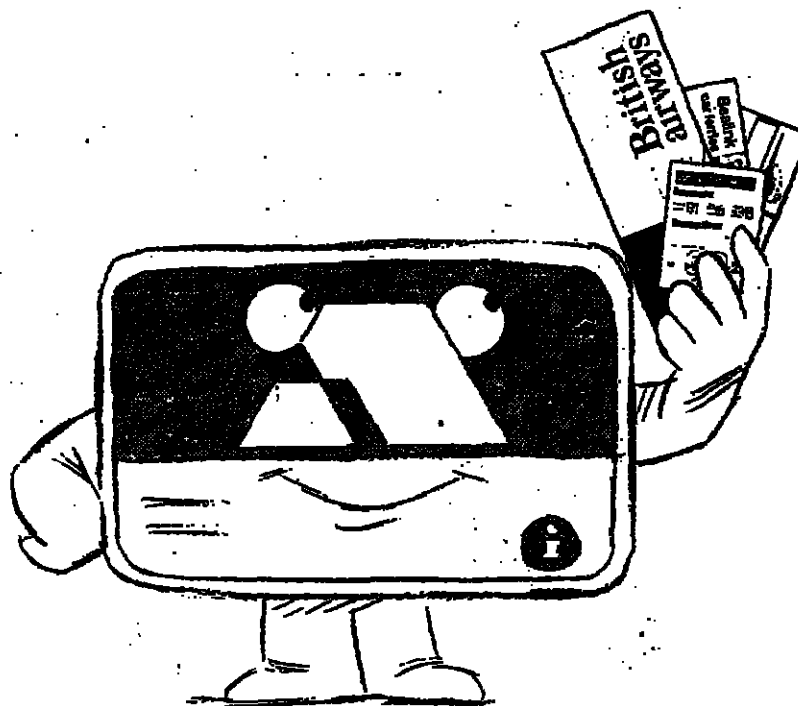
During the 1980s banks will also be experimenting with what could be described as the "unmanned" branch. With little or no human supervision such branches will be equipped with full function ATMs and some limited function cash dispensers, enquiry terminals, special function terminals and the like.

Manufacturers have to design such machines, which have to work without supervision, to be capable of testing themselves and diagnosing faults quickly. The machine has to be able to pinpoint problems so that bank staff can carry out small repairs themselves by plugging in a new part.

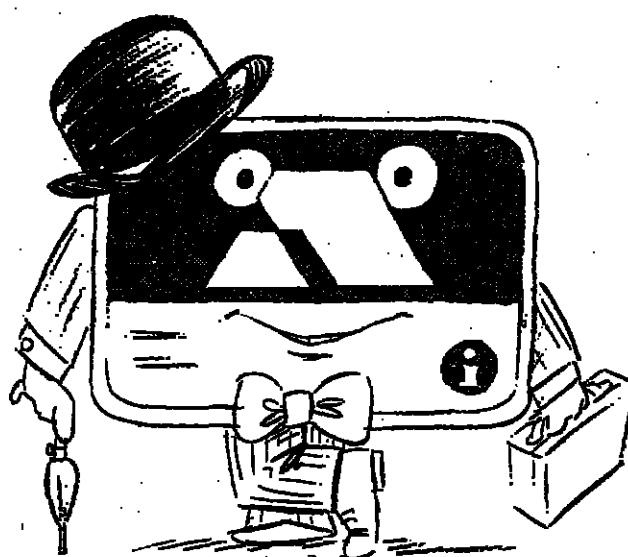
All the equipment necessary to meet banks' present and future needs is available now. In fact, the main danger is that technology is moving too fast

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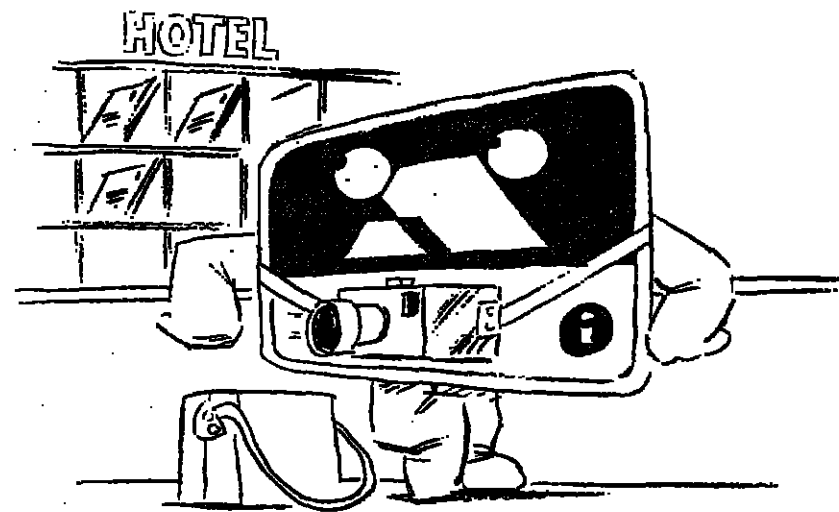
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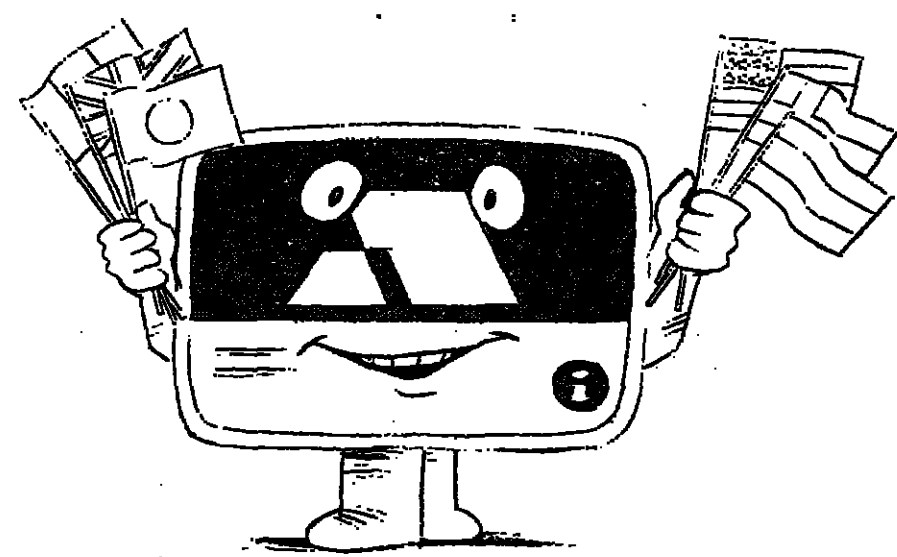
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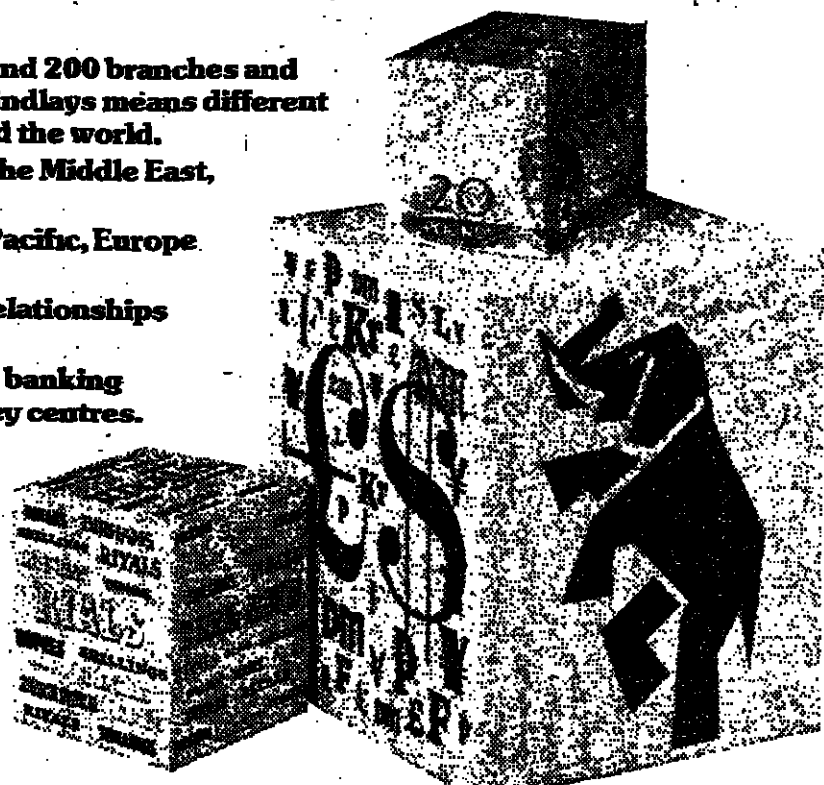
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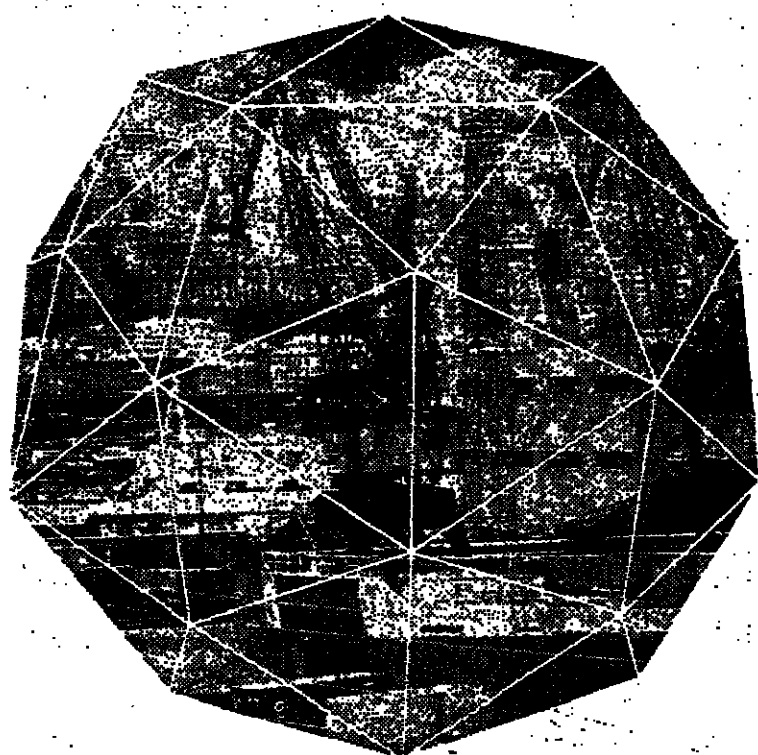
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THE PROVISION of finance for the private housing market represents in many Western countries a growing source of business for the commercial banking community.

For the past 30 years there has been a distinct international move on the part of the banking world to court the private customer alongside the corporate client and the home loans market is emerging as a potentially worthwhile and profitable device for penetrating further into the personal sector.

The emergence and growth of deposit-taking institutions specialising in the provision of private mortgage finance for housing may not have made the banks' task any easier but in several countries they are now beginning to examine and tackle the market with an aggression and enthusiasm not previously been apparent.

The commercial banks in most countries dealt, during the early stages of their development, only with wealthier individuals in the private sector and preferred to leave the provision of services for the smaller saver to other institutions or governments. Penetration of the personal sector only became more marked once the banks began to appreciate that it represented an important and expanding source of deposits.

Valuable

In the Netherlands, for example, not only did the private customer begin to provide at the right time a valuable line of fresh funds; he also made possible the supply of the type of medium-term finance which the Dutch banks were particularly anxious to secure.

As a corollary, the banks' determination to procure more business in the personal sector led to the provision of a wide and expanding range of services, including consumer credit, mortgage loans and money transmission, as well as a rise in bank savings deposits which enabled them to help fund their longer term credit for industry.

The same pattern has been discernable in most of the major Western economies, with mortgage finance for the private customer representing an important option in any market expansion strategy under consideration.

Few countries have recently offered a greater opportunity for the commercial banks to expand their home loans business than Britain, where difficulties encountered by the building societies—the traditionally dominant suppliers of private housing finance—have led to the opening up of the marketplace to much greater competition.

Until recently the clearing banks were largely content to leave the private mortgage market to the building societies and, to a much lesser extent, to the insurance companies, but the recent period of record interest rates has dramatically exposed the societies' recurring inability to meet overall mortgage demand and at the same time has encouraged the commercial banks to take a closer look.

Their activities have so far been restricted to the top end of the market—generally loans of £20,000 or more—a policy which has restricted their area of operation in a market where the average mortgage advance is around £13,000. But with house price increases continually pushing up the requirement for larger loans (pressure on available resources discourages the societies from making big advances) and the concept of more expensive mortgage finance becoming gradually more acceptable, the banks are beginning to feel the opportunities for home loans business are growing.

Nor does it seem likely that their interest in home loans will be a temporary one, with the impending removal of "corset" controls on bank lending likely to lead to stepping up of competition for this type of business.

Computers

CONTINUED FROM PREVIOUS PAGE

and new developments quickly outdate equipment which is only just installed.

How this pace can make systems obsolete is underlined by the fact that in January, the clearing banks and the Bank of England halted development work on CHAPS—the clearing house automated payment system. This would have speeded up the clearing of credits between branches of all the banks subscribing to the system.

Work was stopped only four months before the system was due to be fully implemented, after three years work by International Computers Limited (ICL) and Logica, the software company which was developing the programmes.

ICL was the principal supplier for the successful BACS system (banks automated clearing system) which has

been operating in the UK for about 10 years.

The banks' reason for suddenly abandoning the work was growing worries about the life of the system—estimated at only five years before it would become outdated—coupled with the rising cost.

"Advances in technology may offer more cost effective solutions based on banks' existing computer facilities," said a statement.

Another problem for manufacturers and banks is the response to technology. The concept of totally electronic banking may seem attractive but customers may fear its introduction and spurn its use.

New methods of banking also have to take into account all the complex legal and social implications which can considerably slow down the advance of new technology.

Increasing source of business

HOME LOANS

MICHAEL CASSELL

The major UK commercial banks are well aware that a growing number of foreign banking competitors operating within the UK are now offering mortgage schemes and that demand has been high. The readiness to offer finance on a long-term basis and to provide it with the minimum of delay is proving popular with customers and although the building societies are set to maintain their grip on the total housing finance market their own decision to compete more aggressively for mortgage funds in an attempt to shorten an almost permanent mortgage queue could take on an added importance.

In the U.S., where demand for home ownership is also very strong, the savings and loans institutions represent the most important housing finance bodies, though they do not dominate the market in the same way as do building societies in the UK. The associations hold around 30 per cent of mortgage loans outstanding while the commercial banks, with around 10 per cent, play a less significant role than either the mutual savings clubs, life assurance companies or federal agencies.

The private mortgage market in the U.S. has become virtually fully integrated into other financial markets, with loans available on demand from a wide variety of sources but at rates which tend to be above other long-term rates.

The U.S. is the only country where the "savings bank" system largely operates with fixed interest rates. The variable rate mortgage is still a rarity in a country with a very active secondary mortgage market and the system has worked well, largely because interest rates in the U.S. have traditionally been more stable.

Recent events, however, have plunged the home loans market into a major crisis and the whole structure of the U.S. housing finance system is being urgently reappraised at a time of volatile interest rates and high inflation. The variable rate mortgage, the introduction of which has so far been largely confined to the east coast, would appear to provide the mechanism for a more flexible mortgage system and it could be that a new set of ground rules for its operation might provide the commercial banks with an opportunity to involve themselves more deeply in a market which until now has been adequately served by other institutions.

Significantly

Over the border in Canada, where the housing finance system relies largely on the savings bank system, the mortgage market has in recent years become increasingly competitive. A wide variety of institutions—from life companies, loan and trust companies to credit unions and pension funds—provide home loans and in this respect the role of chartered banks has expanded significantly in the last 13 years.

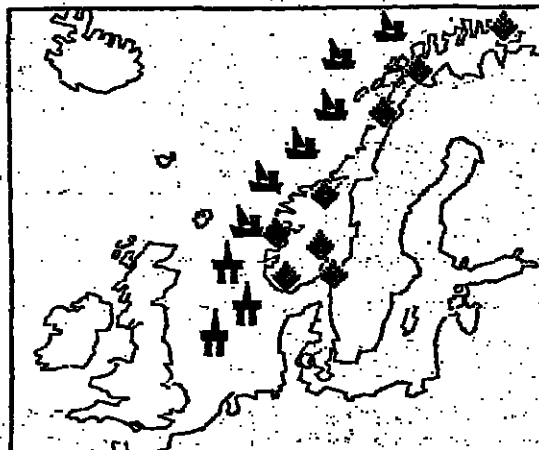
Originally, the chartered banks were only able to make loans at interest rates of up to 6 per cent but legislative changes have now enabled them to make insured loans at market rates, although mortgage assets are still not allowed to exceed 10 per cent of total liabilities. Since the law was liberalised in 1967, the banks have become major institutions in the lending market, with their share of mortgage business rising from around 4 per cent in 1968 to over 15 per cent

While the commercial banks do a limited amount of direct mortgage lending, normally at a fixed rate of interest for five years, they have a more major role in the housing finance field via their ownership of private mortgage banks. They also have an interest in some of the private Bauparkassen.

Of the largest six private mortgage banks four are owned by the three largest commercial banks, four are owned by the three largest commercial banks. Traditionally, the mortgage banks concentrated on financing the construction of rental units but in recent years their lending pattern has shifted in response to the growing proportion of new homes being erected for owner occupation.

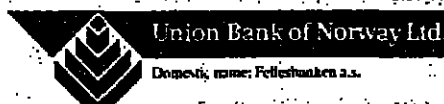
In West Germany and other European nations, such as Holland, Sweden and Denmark, housing finance has become increasingly competitive, with the commercial banks tending to play a wider role than has traditionally been the case. Whether in the form of direct mortgage business, or via the ownership of specialist lending institutions, their influence seems set to continue in a market capable of providing them with a valuable source of additional business.

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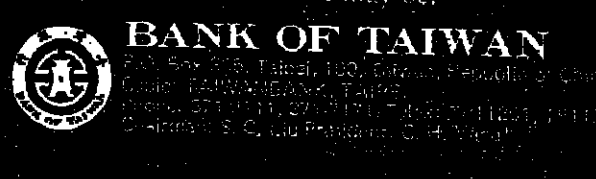


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Banks in the news

This and the following two pages carry articles reviewing the activities of a selected number of banks around the world currently under the spotlight.

Britain's Midland Bank

BEHIND THE impressive exterior of 27-32, Poultry in the City of London lies the headquarters of Midland Bank, and an organisation which has embarked on a vast process of change both nationally and internationally. Midland was once the largest commercial bank in the UK and possibly in the world. Today it ranks third in size in Britain and about 40th in the world and sees itself as the most diversified of the big clearing banks. Its domestic interest range from the main bank with around 2,500 branches to finance houses, leasing and factoring businesses, the Thomas Cook travel services company, and the Samuel Montagu merchant bank.

Internationally it has substantial operations in places like France and Australia and is involved in local joint ventures in places like Spain, Singapore and Brazil. It is a major shareholder in a series of consortium ventures with the EBRIC group of European banks ranging from European-American in New York to European Banking Company in London.

Midland's management is in the hands of two chief executives: Mr. Stuart Graham, who is responsible for the domestic bank, and Mr. Malcolm Wilcox, who controls the international side and related services such as Thomas Cook and the Forward Trust finance house, leasing and factoring group. The system seems odd, by classical management standards, but Malcolm Wilcox says it was established in 1974 to suit the need of the time. Midland's priorities then were to reorganise domestically while expanding internationally. They were two separate jobs to be done and the Midland Board took the view that this was too much for one man.

But suddenly everything seemed to go wrong. The

a formidable one. Up to the time of his accession Midland had based its international strategy on the philosophy of correspondent banking. It had become a member of EBRIC, the Europe-based consortium banking club which includes Deutsche Bank of West Germany, AMRO of Holland, Societe Generale de Banque of Brussels. EBRIC has been a success in the sense that it became the most successful of all the international bank consortiums. But support for the concept had left Midland very poorly represented on the ground around the world.

Over the past few years Midland's reliance on EBRIC as the sole vehicle for its international ambitions has waned, though it still remains committed to the club. Since 1974 it has expanded operationally in France, where it now has a bank with 15 branches; in Australia, where it owns a finance house; in Canada, where it runs a financial services company, and in several other places including Singapore, Bahrain and Brazil. A host of representative offices has also been added in places such as Sao Paulo, Cairo, Moscow and Buenos Aires.

But most of all Midland has been seeking a major acquisition in the U.S. That particular goal seemed to have been achieved last year when it announced a plan to buy the Walter E. Heller group for a record \$500m. Everything seemed to be going like clockwork after the announcement and Midland arranged to sell its long-standing associate stake in the Standard Chartered Group, implying that it had no further ambitions in that direction.

But suddenly everything seemed to go wrong. The

Heller deal was off, with no explanation given. To add to the Midland management's embarrassment the placing of the Standard Chartered shares a week earlier had not gone according to plan and it was left holding part of the stock. Inevitably, perhaps, a great depression seemed to hit the head office in Poultry. For several weeks Midland did not want to talk to the Press.

Time has helped to heal much of the embarrassment, but Mr. Malcolm Wilcox must realise that his term of office will probably be judged to a large extent on whether he can land a U.S. deal before he retires in 1981. His list of priorities for further international expansion reflect this. Top comes North America and Western Europe, followed by the Far East and Australia, the Middle East and South America.

Ambitions

In Western Europe Midland is happy with its network of branches in France. But it might buy a specialist bank in West Germany and also has ambitions in Switzerland. "We want to broaden our base there," says Mr. Wilcox. "We would wish to take advantage of opportunities to raise the level of our involvement." Overall his ambitions for Midland amount to this: "We want to be in Division I of international banks."

While Malcolm Wilcox has been battling on the international side, Stuart Graham has faced no less a challenge with the domestic clearing bank. Before becoming chief executive in 1974 he had developed fairly clear ideas about how the bank should be reorganised. Essentially, he resorted to separate corporate and retail banking. "I don't think a branch manager can be all things to all men."

First, a corporate finance division was created within Midland to take over banking relationships with its 300 largest customers. Then Midland embarked on a plan to turn most of its 2,500 branches up and down the country into "service branches." "We decided to bring together groups of branches with a central management team for

business customers, leaving the service branches to cater for the personal sector," explains assistant chief general manager Mr. John Brooks.

In the service branches Midland is taking much of the back-office work out of the branches to regional operations centres, thereby allowing more space for customer contact. It is a massive scheme by any standard. "We are changing the whole face of the bank after 140 years," comments Mr. Brooks. "It's a major problem." He predicts that around a third of Midland's UK banking volume will have been reorganised by the end of 1982 and the scheme should be fully operational by 1985. Then the clearing bank will comprise around 2,500 service outlets aimed at the retail market and money transmission, and selling a wide range of financial packages; 50 operations centres doing the back-office work in low-cost locations; 300 area offices with both management and corporate services; and 24 regional offices.

Stuart Graham explains that the rationale behind his whole approach is simple: "We want to give the customer what he wants." To get his ideas accepted he has faced a major educational task in a bank where managers and staff have traditionally served only the better-off members of society as well as the business community. "We could not deal with the Great Unbanked within the existing structure of the branches."

Asked to reveal what he regards as his main achievement, Stuart Graham is characteristically reticent: "If I have done anything it is to convince people that the old order cannot continue." His greatest disappointment: "I would have liked a bigger customer profile but change takes time."

John Brooks believes that Midland is now well placed to increase its market share. "The handling of increased volume is the key to success. We're going out after the unbanked."

It seems ironic that neither Malcolm Wilcox nor Stuart Graham will be in the driving seat at Midland when their ideas are finally put into practice throughout the group. As things go in the world of clearing banks they will both retire within the next few years, though each will probably retain a seat on Midland's Board, which is mainly composed of non-bankers. If history is anything to go by neither will be considered for the chair. That post, too, has traditionally been retained for a non-banker.

M.L.

The Triad

A STEADILY growing number of Third World Governments and central banks are hiring Western banks to advise them on their international financial dealings and act as go-betweens. While some banks specialise in reserve asset management, the Schroeder group offers what is one of the best-known services of this kind for central banks—a group of banks which has come to be known as the Triad has found a profitable niche of a different kind.

The three banks which comprise it came together five years ago when the Indonesian Government was facing the difficult task of restructuring the debt of Pertamina, the State-owned oil company. Each offered its services independently to the Indonesian Government, which finally invited Kuhn Loeb Lehman Brothers Int. in New York, S.G. Warburg and Co. in London and Maison Lazard et Cie in Paris to join forces.

The combination proved attractive to other countries faced with serious problems of debt restructuring, as the mix of nationalities of the banks, the high respect in which they are all held in international banking circles and the fact they are investment/merchant banks (i.e. unlike commercial banks they do not lend much money directly themselves) insulated the Triad against the charge that its advice was tainted with self-interest or narrow nationalism.

Peru, Gabon, Ghana, Zaire and Turkey have used their advice, in the first two instances very successfully. Sri Lanka has also been added to the list but not because of any serious debt problem. The Triad have laid down certain rules in order to avoid any confusion between the respective banks' concerns.

One is that the fees are split three ways regardless of which bank takes the lead in the relationship with a particular country. The second is that the bank which has most experience in dealing with a particular country will take the lead.

The Triad remains firmly on the borrower's side of the table in any negotiations with the commercial banks over debt restructuring. The reports it publishes regularly on some of

its clients—notably Gabon—are accepted as gospel by the other banks and have the added advantage of being politically visible than International Monetary Fund (IMF) reports and thus less likely to provoke strong reactions in the country concerned. This point, a growing importance as it remains very difficult for the IMF to advise Third World countries discreetly and without encroaching the wrath of many for its harsh deflationary measures it usually proposes.

The Triad does not only help to arrange finance. It also advises countries on contract negotiation, on steps to promote foreign direct investment, on project finance and on the organisation or reorganisation of the domestic monetary system. The contract to advise Turkey came to an end at the end of last year.

Advisers

Other banks have also acted as advisers to individual countries or companies in the Third World—Dillon Read did so for the Algerian State-owned company Sonatrach for a number of years for instance—and First Boston did so for the Nigerians during the negotiations for a jumbo \$1bn loan which they raised in 1978. In this instance however, the adviser was eventually by-passed by the lending banks.

Some commercial banks resent the intrusion of merchant banks, yet it was not so long ago that in the 1970s, that such merchant banks often led the lending syndicates. This latter role has in recent years been taken over by those banks with more financial firepower. Such banks often accept that it can help a borrower to have someone who knows the rules of the game advising him. It avoids misunderstanding and suspicions which often make negotiations between banker and borrower unnecessarily long and acrimonious.

For the Triad, their new-found role certainly adds a new element of connection to the market and provides a welcome new source—though undisclosed—of revenue.

Francis Ghilès

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The most important balance sheet
figures at a glance:

	1979	1978
Total assets	DM 6,076m	4,734m
Due from credit institutions	DM 2,315m	2,225m
Due from customers	DM 2,622m	1,364m
Due to credit institutions	DM 5,260m	3,906m
Due to other creditors	DM 420m	359m
Own resources	DM 179.1m	167.4m
Balance sheet profit	DM 127m	11.6m

Based on exchange rate of Lux. Frs. 16.8209 = DM 1 -
as at December 31, 1979.

Last year we achieved a considerable increase in our total assets, bringing them to DM 6.076 m, up 28 per cent.

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WORLD BANKING XXX

France's Credit Agricole

FRANCE'S BANKING system has a cuckoo in its nest.

Credit Agricole, a mutualist body under state tutelage, owned by more than 3m members, has grown out of its special category—an intermediary for Government farm support—and now features in most standard listings of fully-fledged banks.

By the size of its assets, the "green bank" is the biggest in France and number three in the capitalist world, a complex monster whose position and pervading presence has brought it into conflict with the rest of France's banking establishment.

This conflict is still unresolved after a second reform of Credit Agricole's charter, which in exchange for an extension of its competence—in addition to the wider scope given to it in a first reform in 1971—imposes some important constraints, not least company tax.

The compromise has left the orthodox banks with some lingering uneasiness about Credit Agricole's privileges and sumptuous resources.

On the other hand, there are growing complaints from within the Credit Agricole that Government credit policy is preventing it from fulfilling its role—consecrated in the agreement—in the modernisation of rural France.

Newcomer

A relative newcomer among French banks (its central body, the Caisse Centrale, was set up in 1920), the network had a balance sheet total of FF422bn or about \$100bn at the end of last year—an increase of almost 18 per cent since its new charter took effect a year earlier.

It now accounts for about 21 per cent of total banking credits outstanding in the country. Besides a near-monopoly in the farming sector, it has become one of France's leading housing banks.

Although it is still prevented from making direct loans in urban areas, housing credits make up a good half of its medium- and long-term lending.

The amount multiplied by three between 1971 and 1977, soared by 69 per cent in 1978 and rose another 63 per cent last year, outpacing the growth rate in other credit categories.

Also far outside its original field, Credit Agricole plays an increasing role in syndicated Eurodollar credits and international loan management. It also runs one of France's more

imaginative travel agencies.

The body of Credit Agricole is made up of 94 regional banks and over 3,000 local co-operative banks. Above this body, the monster has two heads. One is the Fédération Nationale du Crédit Agricole, which represents the regional units, carries out research and documentation and runs training programmes, but has no financial activity.

The other is the Caisse Centrale de Crédit Agricole, a public establishment whose directors are appointed by the Ministers of Agriculture and the Economy but which has financial autonomy in co-ordinating and controlling the network, managing the central resources and providing capital for the regional caisses.

The executive echelons of this system have sometimes been described as a parallel civil service. Private bankers tend to resent the power of mutualist banking more than they do the big nationalised commercial banks.

They still contest Credit Agricole's favourable tax treatment and the monopoly of subsidised credits which Credit Agricole shares with the Banques Populaires. And they fear that in two years Credit Agricole will once more be allowed to wage the "high street war" of new branches in French towns.

The charge of unfair competition was one of two reasons why the Government felt it had to change Credit Agricole's charter. The other was concern for development of farming regions, where the bank's management was—and is—demanding better tools to carry out what it sees as its vocation.

The measures drawn up in November 1978, after long argument, include two permanent constraints. The most important is that the bank has to pay company tax on its "surpluses"—not all, as the other banks wanted, but on two-thirds. This is designed to exempt its genuinely mutualist activity—its business with farming members.

The effect has been a sharp reduction in the bank's still massive net profits. Although final figures were not published at the time of writing, 1979 after-tax earnings were expected to be just over FF1bn compared with FF1.9bn in 1978, a year when they included some exceptional profits carried over from previous years, and FF1.05bn in 1977.

The bank's operating profits have, however, continued to rise—from FF966m in 1977 to FF1.13bn in 1978 to FF1.35bn last year.

The other permanent constraint is a pledge by Credit Agricole to moderate its growth in the home-savings market and to play instead a more effective role in placing bond issues by public enterprises and financial establishments.

In addition the bank had to howl to two temporary measures—a four-year freeze on its advertising budget and a three-year pause in the opening of new branches in non-rural boroughs.

Extension

Credit Agricole's side of the bargain was a widening of its special range of activity. First of all, the definition of where it could make loans was extended from boroughs of up to 7,500 inhabitants to those of up to 12,000.

Secondly, it was given responsibility for everything to do with the food industry, even outside rural areas—processing, storage, distribution, export and foreign marketing.

Thirdly, it will be able to finance all kinds of small and medium-sized industry (up to from 1981 onwards).

This means the bank can now finance almost all activities which are outside big towns or which involve farm produce. A major shareholder alongside the state in the Industrial Development Institute, it has a strengthened industrial role. It also has a potential extra clientele of several million.

But in order to carry out its redoubled role, Credit Agricole feels it needs more leeway in the Government's tight credit policy. Its "envelope" of subsidised credits has been increased by 11.4 per cent this year to FF15.7bn from FF14.1bn.

While this presents no problems as far as medium- and long-term farm loans are concerned, Credit Agricole says it will have difficulty meeting some other traditional commitments and exploiting the new openings.

It warned a year ago that credit cuts would have to be defined in such a way as to take account of the extension of its activities. "Otherwise the reform would remain inoperative."

The growth ceiling for loans

while come under Government credit limitations is set this year at 5 per cent, and for the first time the cuts apply to finance for crop storage. Initially the requirement was estimated at FF2.5bn, but it is now reckoned that a further FF2.5bn may be needed.

The Caisse Nationale has recommended the regional caisses to break the rules: it is necessary and this being said.

Credit Agricole is equally unhappy about higher interest rates, which on its ordinary subsidised loans went up from 3 to 8 per cent at the end of January.

For the Government, the reason is simple: to reduce the escalating cost which is incurred by supporting soft farming loans.

Special rates for land purchases, young farmers, livestock development, calamity relief and so on had stayed unchanged for years while normal interest rates rose and the state had to cough up the difference.

Even with the higher interest rates, which do not apply to young farmers or priority modernisation measures, the FF15.7 credit "envelope" represents a state subsidy of FF3.7bn, the Government says, which is rather more than the FF3.3bn set down in the 1980 budget for direct investment in agriculture.

Overall budget for subsidising loans—which still include some outstanding 3 per cent credits—is being kept at last year's level of FF5.3bn, takes a series of steps increases, the proportion of interest taken care of by the State rose from a average of 5 per cent in 1977 to more than 5 per cent last year.

But Credit Agricole says farmer's investment capacity may suffer as a result of the increase.

It is unlike most other banks in that it comes under pressure from its grass roots—the local cooperative banks and the farmers themselves.

The regional caisses have been pressing for greater autonomy from the Caisse Centrale. And farmers' organisations have been almost as concerned as the mainstream banking establishment that Credit Agricole should not abandon its special vocation and become a universal bank.

David White

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balance sheet

at December 31st

	1979 KD	1978 KD
ASSETS		
Current and call accounts with banks	3,890,928	2,080,726
Time deposits	120,655,367	103,211,953
Marketable securities:		
Straight bonds and debentures	26,794,270	16,137,897
Equity-linked bonds	1,425,768	799,674
Equity	17,108,693	7,223,857
Loans and other securities	56,985,344	46,316,042
Real estate	12,996,582	7,933,634
Participations in subsidiary and associated companies	9,586,780	7,460,552
Trade investments	4,595,274	4,707,018
Other assets	21,663,603	18,536,722
TOTAL ASSETS	275,702,609	214,408,075
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Fixed deposits	193,465,870	143,734,687
Current and notice accounts	16,267,979	18,491,272
Other credit balances (including contingencies)	13,708,510	10,611,283
	223,442,359	172,837,242
Proposed dividend	4,500,000	1,250,000
Shareholders' Equity		
Capital authorized and issued:		
30,000,000 shares of KD 1 each (1978: 25,000,000 shares of KD 1)	30,000,000	25,000,000
Proposed bonus shares	—	2,500,000
Statutory reserve	7,544,743	6,942,551
General reserve	10,205,000	5,852,059
Unappropriated profit	10,507	26,223
	47,760,250	40,320,833
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	275,702,609	214,408,075

Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)

Established in accordance with Amiri Decree, dated 18th January, 1965.

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Germany's Bayerische Vereinsbank

THE Bayerische Vereinsbank has acquired the reputation in recent years of being one of the fastest growing banks in West Germany, and at least in terms of its annual business volume its record stands comparison with the giants of West German banking such as the Deutsche Bank, Dresdner Bank and Commerzbank.

It is against such rivals that it must be compared, for the Bayerische Verein itself ranks fourth among West Germany's commercial banks and claims 23rd position on world lists.

It is often regarded as the Federal Republic's largest commercial regional bank—as distinct from the Landesbanken, the publicly owned banks of the separate West German Federal States—but for several years it has been expanding well beyond the boundaries of its original world, the kingdom of Bavaria.

Unlike the "Big Three" commercial banks in West Germany, the Bayerische Vereinsbank, and the other major regional banks the Bayerische Hypo- und Norddeutsche Hypotheken- und Wechsel-Bank, are not only allowed to conduct regular banking business; they can also grant mortgage loans in their own right. The other commercial banks have to carry out mortgage business through subsidiaries. This circumstance, caused by historical accident, has had a strong influence on the way the Bayerische Vereinsbank's domestic business has grown and last year the mortgage business accounted for some 36 per cent of the parent bank's balance sheet total of DM 48bn. The mortgage business of the bank has always been conducted throughout Germany, but it is only in recent years that the Bayerische Verein has also pushed its commercial banking business beyond the frontiers of Bavaria.

Its expansion since the end of World War II has come in a number of distinct phases. Growth immediately after the war was tied closely to the rapid industrialisation of Bavaria itself, one of the fastest growing regions in the whole of Germany. The Bayerische Verein then started the process under its most famous post-war chairman, Baron Tucher, of looking beyond its home State for growth of business.

In a series of takeovers or part-acquisitions it purchased a number of small private banks or took substantial shareholdings in banks in cities such as Hamburg, Düsseldorf, Frankfurt and Saarbrücken. At the same time a parallel process was happening abroad as the bank moved to take a stake in the burgeoning international banking business. The expansion of the West German institutions

abroad has been one of the major developments of world banking in the last decade and the Bayerische Vereinsbank was one of the first to decide to establish itself in the world's major banking centres under its own name.

As a result the Bayerische Vereinsbank has now largely completed the establishment of its network of foreign branches and representative offices, according to the chairman of the executive board, Dr. Max Hackl. The bank already has branches under the name of the Union Bank of Bavaria in New York, Chicago and Los Angeles with subsidiary offices in Atlanta and Cleveland. Further branches have been set up in the Cayman Islands, London and Tokyo.

Perhaps more significantly as

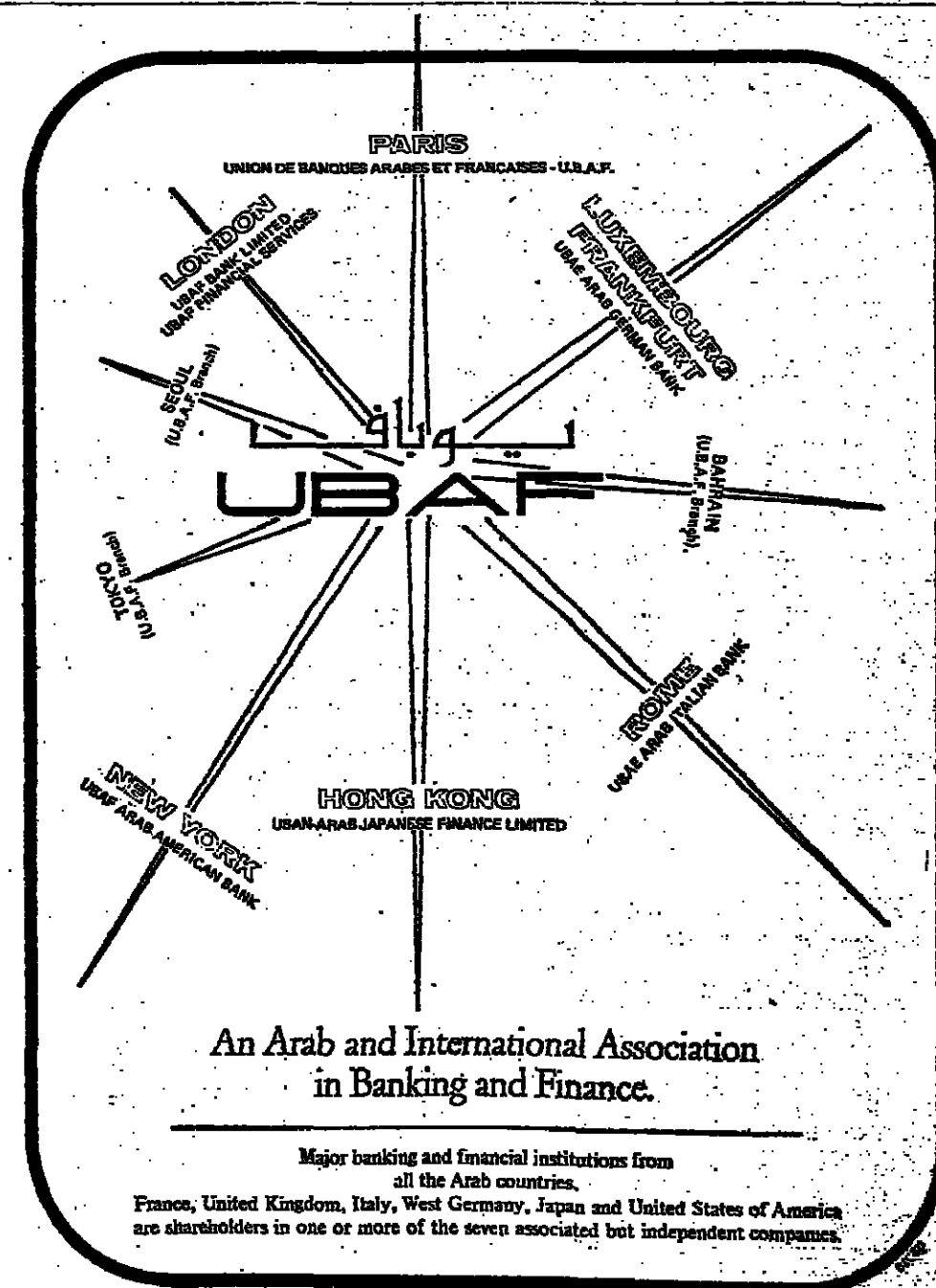
a pointer to future trends the Bayerische Vereinsbank has also become the first West German bank to join what is so far a unique banking venture in the Eastern bloc. Together with its other Western partners—banks from Austria, Japan, France and Italy—it has taken a stake in a new bank formed in Hungary, the Central European International Bank.

The Hungarian National Bank has only a minority 34 per cent share and the remaining interest is shared equally among the six Western partner banks. It could hardly have chosen a more hostile moment to start its existence within the minefield of East/West relations, but Dr. Arno Fühmann, the Bayerische Vereinsbank's director responsible for international business, is confident that the

Hungarian bank can emerge as a new vehicle for co-operation between Western countries and Comecon members.

Its more immediate goal on the domestic front are the further expansion of its network of branches away from Bavaria and through the major conurbations along the Main and Rhine. Offices are opening in Bonn, Koblenz, Trier and Düsseldorf. In the Saarland Bayerische Verein is in the process of incorporating its 100 per cent subsidiary Rhein Bank under its own colours, but in other cities its subsidiaries and interests—such as Simonsbank, Düsseldorf (94.3 per cent) and Bethmann Bank, Frankfurt (90 per cent), will hold their separate identities—at least for the moment.

Kevin Dote



WORLD BANKING XXXI

Hongkong and Shanghai Banking

Merrill Lynch of the U.S.

THOSE WHO KNOW a little about the Hongkong and Shanghai Banking Corporation (HSBC) know it to be a very British and very colonial institution run by a class and race conscious breed of English public school products who once ran a whole empire.

Those who know even less about the HSBC know it to be something vaguely Chinese from the mysterious East which has grown rich in inscrutable ways and is involved in all kinds of exotic activities outside the field of safe commercial banking.

Like all caricatures, such perceptions have some basis in reality. The much bigger and more important reality, with which bankers and financial markets in Britain and the U.S. are only gradually getting to grips, is that the Hong Kong Bank is actually a very large, somewhat ponderous and conservative organisation which is much like other large business organisations.

It is different from UK and American banks because it grew up in a different environment because it exists in a unique

It is unique in some respects, place—Hong Kong. But essentially, the group is really very ordinary. So ordinary in fact that its senior executives seem almost puzzled that the group is as big as it now is, and puzzled that their acquisitions have attracted the attention, and sometimes opposition, that they have.

This year the HSBC arrived in the big league of international banks with its acquisition (to be completed later in the year) of 51 per cent of Marine Midland of New York at a cost of U.S.\$314m (£139m) mainly in badly needed new capital for the American bank.

Marine Midland is the twelfth largest bank in the U.S. and has total assets of U.S.\$15.7bn, not so much smaller than the HSBC group's U.S.\$25.5bn end-1979 balance sheet total.

As well as landing this big fish, HSBC is also in the process of swallowing a minnow, Anthony Gibbs, the UK merchant bank. It is paying some U.S.\$35m to acquire the 50 per cent of Gibbs that it does not already own.

It is indicative of some of the suspicion, if not antipathy, that HSBC sometimes faces in the West that it took almost two years for the Marine Midland deal to go through.

It was only finally approved when Marine Midland acquired a national charter in the U.S. to escape the politically motivated obstruction of New York State authorities. The Gibbs acquisition was followed by Gibbs' removal from the supposedly prestigious London Accepting House Committee.

Epitome

The tinge of unease with which the HSBC is sometimes regarded in the West is in complete contrast to its image in Hong Kong and throughout South-East Asia, where it is seen as the epitome of solidity and conservatism and more likely to be criticised for its alleged stick-in-the-mud attitudes than for adventurous moves into such areas as oil tankers.

The Hong Kong Bank does not see itself as a banque d'affaires on French lines

making direct links between banking and equity investment. And it is certainly not like the big Japanese banks serving as the hubs of industrial and commercial giants.

But in common with most long-established major banks in South-East Asia it has not been shy of taking equity participations in non-financial institutions from time to time.

These investments have tended to attract attention out of proportion to their importance to the group. By far the largest of them is HSBC's stake in two of the major components of shipping: the 25 per cent of the world-wide shipping group, The bank's share of the paid-up capital of these is U.S.\$33m.

Other significant non-financial investments are a 25 per cent stake in Cathay Pacific Airways, and 43 per cent of the South China Morning Post, a very profitable publishing concern. A 21 per cent stake in Hutchison Whampoa, a big trading and property group acquired during a bailing out operation in 1975, was sold last year to property group Cheung

Kong. Divided income from the shipping and airline interests was HK\$88m (£8m) last year, or 8.7 per cent of group consolidated earnings.

The relative importance of these non-financial activities has been declining and that is likely to continue because almost all expansion has been into merchant banking, leasing insurance and other financial services. One exception to that trend is a recently announced joint shipping venture with China through World Finance International, a company which links HSBC, YK Pao and the Industrial Bank of Japan.

Whatever the strengths and weaknesses of the HSBC's banking management, it has always shown a keen political instinct. It has a branch in Shanghai which even survived China's cultural revolution. The bank and its long-time close associate Pao have now found added favour with China.

Meanwhile, another local entrepreneur with close China links, Li Ka-Shing of Cheung Kong, has joined the HSBC Board. The bank's cementing of its ties with Li, the king of Hong Kong property developers, has strengthened its position both in Hong Kong and towards China.

In Hong Kong itself, the bank remains by far the most powerful single business institution. As a group, it manages to sustain its share of domestic banking at around 50 per cent, largely thanks to the success at the retail banking level of its 61 per cent owned subsidiary Hang Seng Bank, acquired during a banking crisis in 1965.

Many claim that the group's size and power are unhealthy for an open economy. But its relative power as an institution is probably waning as the Hong Kong economy grows both more diverse and more international, and as the Government gradually assumes a larger role in management and regulation.

Rapid expansion outside Hong Kong in the past two decades does not seem to have been aimed at ensuring survival should anything happen to Hong Kong. More important, probably, has been the fact that it was generating massive profits from Hong Kong and its operations in South-East Asia, but found expansion constrained—in Hong Kong, by the size of its market share, and in its main South-East Asian operations in Malaysia and Singapore by regulations discriminating against foreign banks.

Its first big moves were the acquisitions in 1959 of two British colonial banks—the British Bank of the Middle East and the Mercantile Bank. Political turmoil has now rubbed the gift off the Middle East, but BBME has picked up a little oil wealth.

Pursued

International expansion has also been pursued via Wardley, the group's principal merchant banking arm.

Wardley's performance in the early 1970s showed that the HSBC's power and weight were sometimes needed to overcome the group's inexperience outside ordinary commercial banking. But Wardley is now well established in its own right with offices in seven countries.

The profitability of the HSBC and its banking subsidiaries is not known because of undisclosed transfers to hidden reserves. Stockbroker Hoare, Govett recently estimated that true profits were on average about 50 per cent higher than disclosed ones. This is a subject that the bank itself will not comment on. But it is likely that the relative size of hidden transfers has been increasing as the bank has moved to keep its capital base in line with the fast growth of deposits in an inflationary climate.

FOR MERRILL LYNCH, the largest U.S. securities house, the announcement in January that Mr. David Montagu and Mr. John Craven, two of London's better known bankers, were joining the organisation represented something of a milestone in the development of one of the firm's less widely publicised operations—merchant banking.

Mr. J. Arthur Urciuoli, president of Merrill Lynch International (MLI)—within which the investment or merchant banking subsidiaries fall—concedes that it is not until a banking firm has achieved a certain size and status (and convinced the financial world that it is in the business for the long haul) that it can "attract that sort of person."

"To many of the investors owning stock in Merrill Lynch the fact that the company has an international banking arm with balance sheet total of \$1.2bn might come as something of a surprise."

Merrill Lynch is one of the outstanding business success stories of the past decade. Its total assets have grown five-fold to \$10bn, its total capital has more than doubled to \$784m, dwarfing its Wall Street rivals, and the range of its services has set a standard for competitors to aim at.

It was a decade ago that Merrill Lynch began the diversification programme which led it to break out of the narrow confines of securities business, and shortly afterwards, in 1972,

America's Chase Manhattan

AS THE first quarter's results from the major U.S. banks came over the wires in April of this year there was inevitably considerable interest in the performance of Chase Manhattan, the third largest U.S. bank with assets of over \$65bn.

For the best part of five years, Chase has suffered the unenviable reputation of being seen as an institution struggling to come to terms with a more challenging business environment. In comparison with its rivals among the big U.S. money centre banks, Chase's performance in the 1974-75 recession was dismal. Its profits plunged from \$182m in 1974 to \$105m in 1975, partly because of the close on \$1bn in loan losses (largely in property) it was forced to write off between 1975 and 1978.

As its problems visibly mounted so too did the criticism of its chairman, Mr. Rockefeller, who was widely judged to have fostered (or at least tolerated) too "clubby" and complacent an atmosphere in the bank.

With the evidence of the bank's weaknesses appearing starkly in its quarterly earnings reports the Chase, under Mr. Rockefeller's continued leadership but with the bank's President since 1972, Mr. Willard C. Butcher playing an aggressive role, set about transforming itself into a more professionally managed institution.

Strategy

With loan growth in its domestic market stagnating in the wake of the 1974-75 recession—partly because major companies were refinancing themselves in the bond market but also because of competition from the commercial paper market—Chase pressed ahead with building up foreign earning assets. These grew from \$12bn to \$22bn between 1975 and 1979. The significance of this side of the Chase's strategy can be seen from the fact that in 1976 overseas earnings accounted for 82 per cent of net income. By 1979, however, the figure was down to 47 per cent of net income, which by

that point had recovered to a healthy \$311m.

The growth in net income from the earlier disasters was one encouraging sign for Chase's shareholders that the quality of decision-making in the bank was improving. But as Mr. George Salem, bank stock analyst with New York stockbrokers Bache remarks in a recent analysis on the bank "only when tested in difficult times, as 1980 and 1981 are likely to be, can management's skills be truly measured."

It was with this rule-of-thumb in mind that analysts were keenly interested in the Chase's first quarter figures for this year, for if the bank was going to fall at the first really challenging fence then it would quickly become apparent during this period of sharply rising interest rates and deteriorating business conditions.

The figures which the Chase produced were widely seen as reassuring. Excluding a special item relating to the sale of a minority interest in a foreign bank, Chase improved its net income by 10 per cent, a com-

parable performance compared with some of its competitors. More significantly perhaps, its return on each \$100 of average assets slipped only a fraction from 51 cents a year earlier to 50 cents.

It is of course early days for the Chase and there will be plenty of challenges ahead in the next two years and beyond. But already it is beginning to look as if in the U.S. at least they will not be quite as daunting for the banking industry as they threatened to be.

Stewart Fleming

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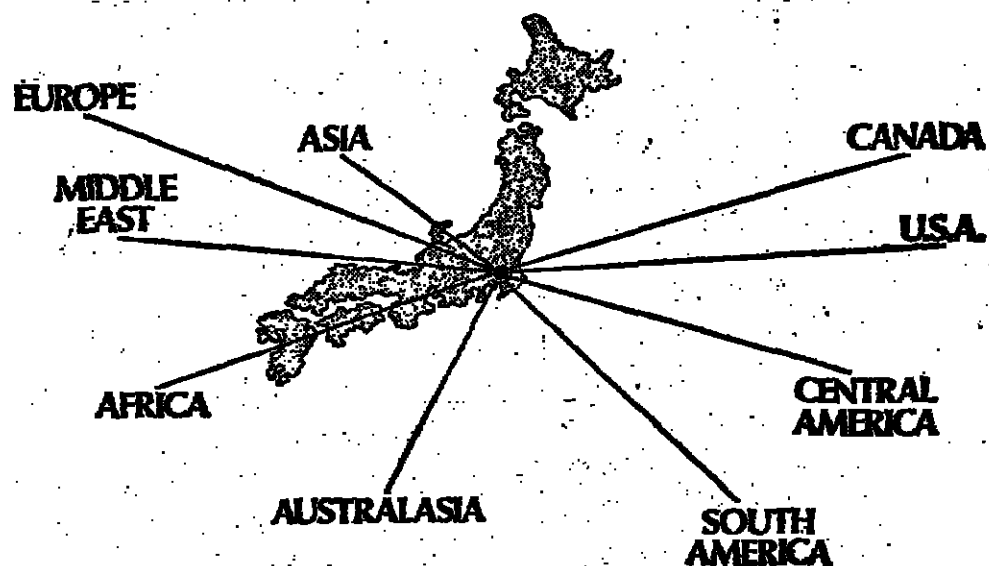
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Your international connection

Surplus oil States lack liquidity

IN 1980, members of the Organisation of Petroleum Exporting Countries are expected, by general consensus, to generate a surplus of no less than \$100bn and perhaps as much as \$120bn. Longer-range forecasting must have an element of speculation about it. Yet here again the gloomy assumption is that over a five-year period an accumulative surplus of up to \$500bn may have been recorded. The greater part of whatever the total proves to be, probably about 80 per cent, would accrue to four producers which have

always been regarded since 1972-3 as destined to have considerable excess revenue over expenditure: Saudi Arabia, Kuwait, the United Arab Emirates and Qatar. The supreme irony is that all four of these producers, for various reasons and to a greater or lesser extent, have suffered internally from liquidity problems arising from high-interest rates elsewhere that for other reasons puzzle their governments as they set about investing the excess funds. In this situation Saudi Arabia presents the biggest paradox.

There Islamic strictures and inhibitions against usury are stronger than ever. Thus, the existence of interest on advances and deposits is still not officially acknowledged, being called "commission" instead. In practice, many private Saudi bank customers will not accept anything more than 2-3 per cent on their deposits. For the same reason the Saudi Arabian Monetary Agency, established in 1953, has never been given the title of central bank. Notwithstanding such a traditionalist environment, SAMBA has been pragmatic in facing up

to the outflow of funds in search of higher interest rates but has been of some concern to the Government. The latest available statistics for the year up to last November show demand, quasi-monetary and foreign currency deposits to have grown from \$6.19bn Saudi riyals to \$R 42.55bn (\$12.77bn), or

only 11 per cent. In contrast, loans to the private sector increased over the same period from \$R 14.14bn to \$R 25.88bn, or 82 per cent, and foreign assets by 47 per cent from \$R 11.61bn to \$R 17.08bn. Altogether the drain of private funds is reckoned to have been anything from \$3-5bn.

Despite the Saudi taboos as well as endemic concern about inflation, interest rates have been allowed to rise in the face of higher demand for credit.

For prime borrowers rates vary from 7 1/2 per cent or less to about 9 per cent on long-standing facilities. Rates for additional lines are 12-14 per cent. For new customers and non-Saudis the interest on loans reflects the 17-18 per cent prevailing in the inter-bank market.

Commercial houses of indigenous origin, have profited most from deposits on which only low commissions are paid. In the forefront is the National Commercial Bank. Last November it had assets of \$R 23bn out of consolidated total for the sector in the Kingdom of over \$R 100bn following a fiscal year in which its profits doubled to \$R 600m. At that point the Riyad Bank's balance sheet stood at \$R 17.08bn. Until recently they alone were permitted to expand into the interior and have a branch in the capital Riyadh, a privilege that was only accorded to Citibank of the previously foreign-owned bank. Citibank has been the last to submit to "Saudiisation" law promulgated in 1977.

With its circumscribed economic base, limited scope for internal development and more sophisticated private investors Kuwait is still more obviously strained by high interest rates abroad. Once again last month Mr. Abdul-Rahman al Attiqi, Minister of Finance, went out of his way to deny that the Government was prepared to contemplate a higher limit on interest rates. Out of respect for traditionalist feeling and for fear of offending citizens who see cheap credit as a right, the three-year-old ceiling (formerly 7 1/2 per cent for all loans), of 8 1/2 per cent for lending up to 12 months and 10 months for longer periods looks likely to remain in being for the foreseeable future. Exchange controls are out of the question. So, too, is any significant revaluation against the dollar that might make private investment abroad less attractive and make Kuwaitis think more seriously about possible exchange risks. Thus, the Government and the Central Bank continue to resort to the palliative measures imposed since the flood of money leaving Kuwait became a torrent last summer.

Apprehension about regional stability appears to have been a minor factor behind the outflow of funds from Kuwait compared with Saudi Arabia. That much seems emphasised by the frenzy of speculation in the shares of offshore Gulf companies, as well as in gold transactions. The Central Bank has correctly attributed the large outflow to the investment opportunities afforded by higher interest rates elsewhere. The Government's ban on the trading in shares of Gulf companies in Kuwait itself appears to have had only a marginal effect, though the flow has diminished for other reasons,

related to more sober calculations by investors. The suspension of issues of KD-denominated bonds has merely underscored the fact that, with their low yield and their close linkage of the currency to the dollar, they had not become an attractive investment, anyway. With better effect the Government has increased spending on land acquisition, one of the time-honoured Kuwaiti methods of distributing the state's wealth, to ease the tight liquidity situation. The artificial lending rate structure restricts the Central Bank's ability to control the commercial banks.

The liquidity crisis has general high-lighted its impotence. Its to injecting funds into the system, has been limited largely to through swap facilities and a discount window—KD 319m and KD 374m in the latter half of last year, an intervention that has continued in 1980.

Advances

As it is, there will have been little change for the better in the ratio between lending and deposits. At the end of 1979 outstanding advances stood at KD 2.11bn, up 34 per cent over the year, compared with all deposits of KD 2.18bn, only 17 per cent higher, all of it placed at more attractive longer-term rates. A large part of the increase in borrowing was devoted to the conversion of dinars into foreign currency deposits or investment elsewhere. As a result the six commercial houses operating have had to bid on the inter-bank markets at home and abroad, with a resulting increase in foreign liabilities—over 25 per cent last year to KD \$10m. Nevertheless, it proved another good year for the banks with the rise in profits ranging from 35.5 per cent for the Gulf Bank to 12 per cent for the commercial bank of Kuwait. In a restricted field the National Bank of Kuwait remained the largest with assets of KD \$81.8m.

KD issues, still suspended, have been one casualty. From 1974 to 1980 their value has been KD \$80m, or more than \$1.4bn, with an increasing proportion (over a quarter) being accounted for by Arab borrowers. The privately-owned Kuwait International Investment Company has established itself in the management and underwriter forefront ahead of the Kuwait Investment Company (50 per cent State-owned) and the Kuwait Foreign Trading Contracting and Investment Company (80 per cent State-owned), arranging six out of a dozen issues last year worth KD 40m out of KD 106m. Yet before the suspension of issues last year it had become clear the market was in decline because of the low yield and the loss in value on the secondary market.

Kuwait's system, however, is basically a solid one and especially so when compared with that of the United Arab Emirates. Despite President Zayed's long-awaited approval for the establishment of a Central Bank last November it has still not been established partly because there has been no agreement perhaps because of the continued misgivings felt by Sheikh Rashid, Ruler of Dubai, about channelling his oil revenues through such an institution. With the crisis three years ago and the collapse of two banks as a result of the deflation of the construction boom a Central Bank became a vital necessity used both by the International Monetary Fund and the Bank of England.

A more vigorous, reformed Currency Board has managed to assert a minimal stability.

Agreement has apparently been reached between Sheikh Zayed, who is Ruler of Abu Dhabi, and Sheikh Rashid of Dubai on a mutually acceptable Governor—Sheikh Suroor, a member of the former's family. In March both were reported to have stated, not for the first time, their willingness to contribute 50 per cent of their respective revenues, which this year should total some \$20bn, to the Federal Government through the proposed Central Bank. Such an arrangement would, at least, give it the power to control the exchange rate and the availability of dirhams. Either to the monetary authority of political entity boasting, in technical terms, the first or second highest per capita income in the world, has been served of funds and saddled by its previous management with loans that may be hard to recover. A timely inculcation of funds last December (presumed to be from Abu Dhabi's ample resources) gave it reserves (excluding military aid holdings) of Dh 1.432bn, just over the 70 per cent of currency in circulation required of it. It had sunk to Dh 1.145bn at the end of February. Meanwhile, with inadequate powers and means, it has had to attempt the supervision of 54 banks with 350 branches, as well as a handful with restricted banking licenses given mainly for offshore operations, catering for a population of 1m or so.

The difficulties of the weaker brethren of the community can be seen from the Dh. 1bn in outstanding loans by the Currency Board to the commercial banks at the end of last year. The statistics show even more strikingly the liquidity problems that have tended to grow worse in 1980 and dependence on borrowing from abroad, a process facilitated by the preponderance of wholly or

partially owned foreign institutions. Advances, including those to the oil sector, amounted to Dh. 25.34bn, up 15 per cent on the end of 1979. Deposits stood at Dh. 20.61bn, up 12 per cent on Dh. 18.36bn recorded 12 months previously, with most of the increase being accounted for those by the Government (mainly the working funds of the Abu Dhabi Government). According to UAE Currency Board estimates, only 10 per cent of banking business in the UAE is profitable from the handling of large part of Dubai's state revenue and government business (a fact not unrelated to the Ruling Family's ownership of a substantial share of it). The National Bank of Abu Dhabi accounts for about one-third of total assets. The National Bank of Dubai has a similarly privileged position in the state which is the commercial hub of the UAE. So, to a lesser extent, does the Bank of Oman (locally owned despite its name). The NBAD has taken the initiative in helping to develop a secondary market through the issue of certificates of deposit thus giving some stability to the market.

Orderly

Banking in Qatar has been a self-contained and orderly affair by comparison with the UAE. It remains so but the system has not been immune from the stresses and strains suffered by the bigger neighbouring surplus oil producers, over the question of interest rates and the liquidity. The title of the Qatar Monetary Agency indicates the same reservations about usury as Saudi Arabia's. Its development has been cautious in character with the state itself and only this year did the state take responsibility for interest rates that had been previously regulated by an inter-bank agreement. Such self-government was made easier by the

CONTINUED ON PAGE XL

Burgan: still the growth bank of Kuwait.

Three Year Record (December 31st)

	1979 KD*	1978 KD	1977 KD
Liabilities			
Shareholders' Equity	12,744,373	12,036,258	10,639,178
Deposits	285,847,638	231,071,293	151,113,704
Assets			
Cash and current accounts with banks	19,134,271	17,840,784	8,546,653
Money at call and short notice	16,329,705	4,305,016	7,144,423
Quoted investments at the lower of cost or market	7,241,241	8,397,717	1,660,860
Deposits with banks	38,143,090	59,725,119	100,964,183
Loans and discounts	210,965,977	148,479,654	42,699,641
Unquoted investments at cost	2,640,676	912,123	737,122
Other assets	2,167,007	2,922,794	
Total Assets	298,622,011	243,107,551	161,752,882
Customers liabilities on confirmed L/C's, guarantees and acceptances	54,901,609	33,641,004	14,265,075
Total Balance Sheet	353,523,620	276,748,555	176,017,957
Profits	1,758,610	1,415,080	704,227

* (On 31st December 1979 1 KD = US\$1.36)

Burgan Bank, Kuwait's youngest commercial bank, started operations on 27 April 1977. Our achievements in the 32 months to 31 December 1979 are clear from our three year record and in US dollar terms, our Balance Sheet now amounts to US\$1.3 billion.

Our capital is also growing. By a combined bonus and rights issue, new funds of about KD13 million (US\$47.5 million) will be paid into our equity accounts during 1980. After this increase, authorised by our Shareholders' Meeting on 4 March 1980, Burgan Bank shareholder funds will amount to approximately KD26 million (US\$95 million).

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SINGAPORE IS poised to turn itself into a financial super-market offering an increasingly sophisticated range of services through a variety of financial institutions.

The Government and the Monetary Authority (MAS) can look back with some satisfaction over the past 12 years since the birth of the Asia dollar market — the brainchild of the Singapore branch of the Bank of America. The Government quickly saw merit in the idea and stole a march on its financial rival Hong Kong by agreeing to lift the 40 per cent withholding tax on interest on deposits. Within a year there were 90 Asian Currency Units (ACUs) — the separate units, usually within banks, licensed to deal in Asiadollars.

Total assets and liabilities climbed from \$30m in 1968 to \$27bn 10 years later — and they now stand at more than \$40bn. Although this may seem insignificant in comparison with the \$1,000bn Eurodollar market, it has enabled Singapore to become Asia's most important money and capital market for foreign currencies and has played a major part in turning the city State into one of the world's top five international financial centres.

Taking advantage of its excellent strategic position and good communications, Singapore has also become an important link in the global foreign exchange network. At the end of each day Singapore hands over to London, Frankfurt and Zurich. At the beginning it takes over from Tokyo and San Francisco. Daily turnover on Singapore's foreign exchanges has risen from \$350m a day, six

SINGAPORE

KATHRYN DAVIES

years ago to a current \$4.7bn — partly in reflection of the volatility of foreign exchanges in recent years but also because of the number of acas in Singapore, more than a hundred.

Although Singapore is a major trading centre, but much foreign exchange activity relates to trade and since the lifting of exchange controls in 1978 there has been a rise in currency speculation. The MAS in particular worried about a currency "swap" system by which some banks have avoided its reserve requirement of 26 per cent by "swapping" Singapore dollars for, say, U.S. dollars though the bank's ACU. The higher volume of movements of Singapore dollars in and out of the country makes it difficult for the MAS to control the money supply. It has used "moral persuasion" to get the banks to stop this practice but not all of them have done so.

Less successful as part of Singapore's international financial activities has been the Asian dollar bond market, although there are recent signs that the recovery of the Eurobond market may be duplicated here. While there is now adequate managing and underwriting expertise to handle bond issues in Singapore, bankers cite the market's lack of liquidity as an impediment to growth. How-

ever, certificates of deposit (CDs) have met with greater success, particularly the longer term floating-rate CDs and Singapore ranks third behind London and New York as the most important international free market, primarily because of Japanese participation.

Another area in which Singapore's achievements have not lived up to its hopes is in the area of syndicated lending. Foreign bankers have been complaining that legal expertise in particular is lacking in the field of international banking transactions, such as Euro-MAS is unhappy that so much of this business has been finding its way to Hong Kong and has recently given permission to a British law firm to set up a local branch to deal with corporate financing arrangements — a move not popular with local lawyers.

The Government also wants to turn Singapore into an international funds management centre, although Finance Minister Han Sui Sen says that for now "this is merely a concept—its development must depend on the existence of people (with sufficient expertise) to come to Singapore." Mr. Han has promised tax incentives to encourage them to do so. There is also a strong possibility that

the Government will give the go-ahead for at least part of the Central Provident Fund (CPF)—Singapore's particular form of national savings—to be handed over to private managers, once a high-level official committee has worked out the necessary safeguards.

Perhaps the most impressive tribute to Singapore's financial status is the enormous number of banks now in business in the republic—37 commercial banks with full licences, 43 offshore banks, 36 merchant banks, 47 foreign bank representative offices, four discount houses and seven international money brokers. In addition, a subsidiary of one of America's biggest steel companies, Armco, was given permission to set up a merchant bank earlier this year, a move which could open the door for other non-banking groups to enter the market.

Faced with this degree of competition, banks have been offering customers all manner of incentives in a bid to attract deposits. Both local banks and foreign banks licensed to conduct domestic business also have to compete with the Government-owned Post Office Savings Bank (POSB), which has managed to attract the savings of more than 1.6m out of a total population of 2.4m. However, Singapore's banks generally enjoy good rates of growth and the local banks are now themselves "going international" and opening branches in Europe and the U.S. Bankers are optimistic about both Singapore's own economic future and about its continued importance as an international financial centre.

Long-term structural reforms on the way

JAPAN

STEPHEN BRONTE

EUROPEAN AND American bankers like to describe Japan's banking system as fragmented, compartmentalised, or Balkanised. Those descriptions are in essence correct. The modern Japanese banking system is a product of great swings in Government financial policies over the past hundred years as well as some radical reforms imposed on it by foreign powers. The result has been a banking system fraught with structural anomalies that have been the source of no small amount of aggravation for Japanese and foreign bankers alike.

Japan's early Meiji era economic planners originally modelled the country's banking system after that of the U.S. That led to the establishment of several small banks catering to local clientele. Towards the end of the last century that model was abandoned in favour of an English system of universal banks that placed the newly created Bank of Japan at the apex. Then, to accelerate the development of certain strategic industries and regions of the country, a range of specialised Government banks was established. Private trust banks and securities houses came on the scene during the early part of this century.

The rise of the big "zaibatsu," or industrial conglomerates, sparked a series of bank mergers that was deliberately accelerated by the Government during World War II. The number of Japanese banks shrank

from a 1901 peak of 1,867 to only 64 by 1945.

After the war the American occupation authorities sought to "democratise" the Japanese economy by breaking up the biggest private banks and casting the Government banks into the private sector. Today's Industrial Bank of Japan, Bank of Tokyo, Dai-ichi Kangyo Bank and Hokkaido Tokai Bank are all descended from former Government banks that saw their umbilical cords to the Ministry of Finance cut. The Americans also succeeded in pushing a U.S. style securities and exchange law through the Diet in 1948 which separated the banking and securities industries.

Specialised

Today there are 86 commercial banks in Japan. This breaks down into 12 city banks, one specialised foreign exchange bank (the Bank of Tokyo), three long-term credit banks, seven trust banks, and 63 local banks. Each concentrates its business activities in specialised areas laid down by

Japanese laws, although there has been some blurring of the boundaries between these banks in recent years.

The city banks dominate the banking industry in Japan. Around each city bank there cluster dozens, sometimes hundreds, of enterprises from every major industry. These banks engage in providing predominantly short-term credits to clients within their group. They found themselves through large nationwide networks of branches, Japan's short-term money markets (the call, bill discount, interbank deposit and gensaki markets), and more recently through the issuance of yen certificates of deposit.

Shareholding within the group is mutual, and companies in these groups rarely switch main banks.

The three long-term credit banks specialise—predictably—in long-term finance. Ideally these banks were set up to provide long-term funds to Japan's capital-intensive industries. These loans were funded

through the banks issue of one and five-year debentures.

The seven trust banks perform a similar function. They raise funds by issuing trust certificates to depositors. The money is then put into long-term investments, mostly bonds and stocks, and a few long-term loans.

The Bank of Tokyo (BOT) enjoys its unique status as a specialised foreign exchange bank for several reasons. It was first set up in 1952 to finance the foreign trade of a country that was critically short of foreign exchange. Like the long-term credit banks it was allowed to issue one and three-year debentures (all other banks are barred from issuing similar securities in Japan).

Today the BOT dominates Japan's international banking business. It has a share of Tokyo's foreign exchange market variously estimated at 20-25 per cent. It has also a 25-year head start over the other big Japanese banks in the development of its international lending. Some two thirds of BOT's income is generated by its 300-odd overseas representations.

Most of the above banks are headquartered in Tokyo or Osaka and transact a large part of their business in those cities. Japanese local banks are spread throughout the country's 47 pre-

CONTINUED ON NEXT PAGE

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PROFITS (\$'000)	1979	1978	Increase	%
The Group (after minority interests) excluding exceptional profit	52,452	35,829	16,623	+46.4
including exceptional profit	64,412	35,829	28,583	+79.8
The Bank (UOB)	38,071	26,147	11,924	+45.6

DIVIDENDS
Final dividend of 7 1/2% on the enlarged capital of \$8193.3 million. Together with the interim dividend of 5% less tax, the total dividend for the financial year would amount to 12 1/4% less tax.

BALANCE SHEET AS AT 31 DECEMBER 1979

LIABILITIES	\$'000	ASSETS	\$'000
Capital & Reserves	449,476	Cash, Balances with Bankers & Money At Call	1,635,494
Debentures	229,593	Government Treasury	
Total Deposits	3,762,372	Bills & Securities	305,813
Other Liabilities	631,152	Investments	179,765
Acceptances, Guarantees & Other Obligations on behalf of customers	1,203,525	Loans & Advances	2,739,187
		Other Current Assets	112,675
		Fixed Assets	109,739
		Customers Liabilities for Acceptances, Guarantees & Other Obligations	1,203,525
Total Liabilities:	6,276,118	Total Assets:	6,276,118

A copy of the UOB 1979 Annual Report is available on request.

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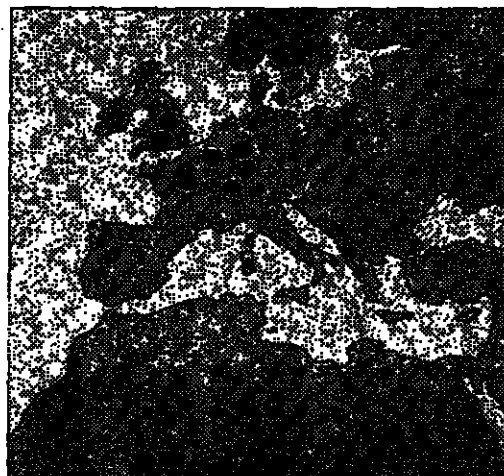
The Industrial Bank of Japan (Germany) is a majority-owned subsidiary of IBJ, being jointly operated with Deutsche Bank AG. It offers full banking services with main emphasis on loan and underwriting businesses.

Luxembourg.

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In addition

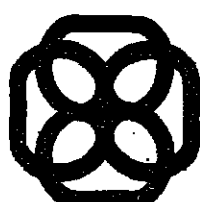
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Frankfurt Representative Office: Phone (0611) 230781 Telex 313132 The Industrial Bank of Japan (Germany)
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BANK BUMIPUTRA MALAYSIA BERHAD

(INCORPORATED IN MALAYSIA • HEAD OFFICE • KUALA LUMPUR)

Condensed Statement of Condition December 31, 1979

ASSETS (M\$'000)	1979	1978
Cash in banks, money at call and short notice	2,266,861	1,487,619
Loans and advances	2,257,590	1,590,887
Bills receivable	165,672	177,541
Treasury Bills and Government Securities	952,627	787,850
Other investments at cost	92,099	89,663
Land, building and other assets	353,770	94,975
Total assets	6,088,619	4,228,535
CAPITAL AND LIABILITIES (M\$'000)		
Authorised capital	200,000	200,000
Issued and paid-up capital	100,000	100,000
Reserves and balance of unappropriated profit	58,879	43,469
Deposits (demand, savings, fixed, etc.)	4,990,175	3,311,291
Deposits and balances of agents and banks	619,801	606,173
Bills payable and other liabilities	319,764	167,602
Total capital and liabilities	6,088,619	4,228,535

BRANCHES

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Bangunan Bank Bumiputra,
No. 21, Jalan Malak, Kuala Lumpur 01-18
Tel. 03-206655 (30 lines)

Branches:
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Istiqlal, Bangunan Bank,
Jalan Malak, Kuala Lumpur 01-18
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Tel. 502-1531-4

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Bank Bumiputra Malaysia Berhad
405, Park Avenue, New York, N.Y. 10022 U.S.A.
Tel. (212) 688-1460 (4 lines)

BAHRAIN

Bank Bumiputra Malaysia Berhad
21, Foz Al Bar, Al Foz, P.O. Box 2000, Manama, Bahrain
Tel. 213773 (2 lines)

REPRESENTATIVE OFFICE

HONGKONG
Jade American International Tower,
16-18, Queen's Road Central, Hong Kong
Tel. 5249-05

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WORLD BANKING XXXIV

Cheap borrowing still the main feature

MALAYSIAN BANKING is becoming increasingly competitive. Local banks, particularly the larger ones, are moving away from their traditional role as mere deposit collectors and lenders and branching out into new areas of modern financing.

Foreign-incorporated banks, restricted by official regulations, are feeling the heat of the rivalry.

Malaysia's banking system is organised largely around British traditions and concepts. At the apex is the central bank (Bank Negara) playing the role of currency issuing authority, lender of last resort and guardian of the nation's monetary stability.

Apart from the central bank, the Government's involvement in the banking industry is far more pervasive than is generally recognised. The three biggest local banks — Malaysian Banking, Bank Bumiputra, and United Malaysian Banking Corporation — are run by Government nominees. The Government has also set up banks to service the special needs of the agriculture and heavy industries sector.

This strong Government participation in banking is part of the Government's new economic policy of encouraging more Bumiputras (Malays) into the corporate sector.

Prior to independence, Malaysian banking was orientated towards servicing the plantation, mining, and trading interests dominated by foreign agencies. Foreign banks were predominant.

Between 1968-79, local bank deposits rose from 36.4 to 64.7 per cent of total bank deposits. This meant an annual rate of increase of some 27 per cent compared with 13 per cent for the foreign banks.

Nevertheless, foreign banks still account for more than 35 per cent of total deposits, and they retain some of the most lucrative clients and businesses, particularly transnationals.

Central bank directives on lending to the "priority" sec-

tors remain irksome for many foreign banks, especially those with few branches and narrow deposit bases.

Under the directives, banks have to lend 17 per cent of their loans to Bumiputras by December 1980, 20 per cent to small scale enterprises, 10 per cent for residential housing, and 5 per cent for food production.

At the end of 1979, foreign

June 1977—one of the lowest in the world.

Prime rates in neighbouring Singapore are between 11 and 13 per cent, not to mention the higher rates in Hong Kong and Bangkok.

So far, the central bank appears to have succeeded in keeping interest rates low, consistent with its objectives of promoting economic growth.

MALAYSIA

WONG SULONG

bank lending to Bumiputras was ringgit 774m or 11.4 per cent of their total loans. The local banks, as a whole, had little difficulty in meeting targets to the priority sectors.

There has been some concern lately over the strong bank lending to the building and housing sector. Total credit extended for property development and house purchases amounted to ringgit 812m, or over 30 per cent of total new credit facilities for last year, compared with ringgit 626m or 23 per cent in 1978.

Cheap credit (the ceiling for housing loans below ringgit 100,000 is 9 per cent a year, while civil servants are charged only 4 per cent by the Government), rapid urbanisation and the shortage of new housing, has pushed property prices to dizzy heights, and a fair degree of speculative buying has crept in.

Rents are falling far behind interest payments (even at such low interest rates) and there is concern that by over-lending to this sector, the banking system could come under strain if the property market, which has been rising continuously since the early 1970's collapses.

The low interest rates in Malaysia continue to astonish most financiers. The prime rate of commercial banks has remained at 7.5 per cent since

particularly private investment, with price stability.

There has been some outflow of capital but not in sufficient volume to cause concern. Some companies, particularly those with close links with Singapore, have taken advantage of cheap money in Malaysia to fund their operations, while export-oriented companies have delayed repatriation of earnings to benefit from higher rates overseas.

Discouraged

To some extent, capital outflows were discouraged by the relatively low rate of inflation, the strength and stability of the ringgit and the knowledge that Bank Negara would step in if heavy outflow of funds emerged.

The pressure for Malaysia to move into line with its neighbours on interest rates is increasing, although most bankers feel any upward revision, if it occurs, will be marginal.

New directives were issued by Bank Negara recently re-defining the issue of bankers' acceptances.

BA's and negotiable certificates of deposit were introduced last May to add depth and scope to the money market, but problems emerged when

the central bank refused to re-discount a number of BA's drawn by large foreign companies.

This prompted the financial community to question whether the authorities had gone back on their word to provide a "last resort" facility.

The central bank felt many large companies were abusing this facility and were creating too many BA's to get cheap funds from Bank Negara.

The authorities are also unhappy about the dubious financial standing of some companies. They expect banks to exercise prudence in underwriting BA's to such companies.

Under the new directives, the central bank has raised its re-discounting rate from 5.2 to 5.7 per cent to reduce the attractiveness in seeking in seeking re-discounting facilities with Bank Negara.

It will not accept three classes of BA's for re-discounting: those drawn by large, reputable companies which should be easily marketable, those drawn by companies of dubious financial standing, and BA's whose creation is considered artificial.

The 12 merchant banks in Malaysia are finding the gold harder these days. Local commercial banks are now packaging their own loan syndications, replacing the "middleman" role of merchant banks.

There is not as much business as there once was for merchant banks to advise on equity reconstruction. Most of the major companies have already restructured to conform with the new policy.

Bank Negara has outlined a role for merchant banks by telling them to reach a target of 30 per cent of their income from fee-based activities by December 1981. This target could be difficult for the smaller merchant banks, whose borrowing and lending operations are also defined by their shareholders' funds.

Restructuring of the equity of some merchant banks, and mergers between them, are possible developments in the not too distant future.

Japan

CONTINUED FROM PREVIOUS PAGE

lectures and are concerned with taking small local deposits and lending the funds to small local businesses. With economic growth rates in rural Japan far lower than in the major metropolitan areas these banks have to grapple with their marginal profitability and with clients of much higher risk rating.

There are also hundreds of "quasi-banks" whose deposit and loan activities are so circumscribed as to prevent them being classified as true banks. The largest is Japan's postal savings system, which currently holds more than 20 per cent of the country's savings deposits. The Central Co-operative Bank for Agriculture and Forestry (the Nomin Chukin Bank) acts as a central bank for Japan's thousands of agricultural co-operatives and rural credit associations. Japan's 72 mutual loan and savings banks work alongside the hundreds of credit co-operatives and associations in providing credit to small businesses and consumers.

Japanese securities houses, especially the "Big Four," partially function as banks in that they enjoy a monopoly on all bonds and equities. Hovering on the periphery of the Japanese banking community are 64 foreign banks that have branches in Japan and 87 representative offices. But foreign banks have not been permitted to develop freely their own long-term sources of yen funding, so

they have never accounted for more than 3 per cent of total lending in Japan.

Corporations depend on a relatively small number of banks for short-term liquidity these banks have become the Bank of Japan's favourite means for implementing monetary policies. Each quarter the central bank issues "window guidance," or specific figures for new lending that each category of bank cannot exceed. In this way the BOJ has been able to control the growth of the money supply and the level of economic activity without manipulating the country's discount rate unduly. The result has been a level of interest rates lower than market conditions would normally have permitted.

Resolution

In recent years the Japanese banking community has begun to deal with a number of long-term structural issues. The resolution of these issues over the next decade will fundamentally change the character of Japanese finance. Perhaps the most important of these issues has been the entry by Japan into an era of relatively slow economic growth. This has caused the financing needs of Japanese corporations to drop as they adopt more conservative expansion plans for the future. Whatever funds they do require are being raised through less expensive direct means, such as the issue of stocks, bonds and convertible bonds at home and abroad. A larger share of funds

is also being raised through foreign currency loans. The net result has been a dramatic fall in new lending by Japanese banks.

To offset these losses the big city banks have been moving steadily into consumer finance, an area previously ignored by them. This has begun to squeeze small local financial institutions that have traditionally depended on this field for a much larger share of their business. Reduced lending by the big banks has also cut their own funding requirements. This has further hurt the chronically cash-heavy local banks because they now have fewer opportunities to invest their excess deposits with the large banks.

At this point national policies enter. Because local financial institutions supply funds to rural areas that have far more electoral power than the cities, the Ministry of Finance (MOF), dominated by the country's ruling Liberal Democratic Party, has pursued policies designed to protect these institutions. It allows them to offer higher deposit interest rates than the large banks. It also provides financial support whenever these small banks run into liquidity problems.

These domestic political priorities have made reform of Japan's interest rate structure difficult. Lending interest rates have mostly been freed in the last few years. But in a country where the savings ratio is frequently over 20 per cent

reform of deposit interest rates is a political hot potato that the MOF would rather avoid.

To circumvent this problem the MOF has dusted off its old wartime policy of concentrating the banking industry. It wants weak rural financial institutions to merge with city banks. But the small banks oppose this policy because the careers of individual staff tend to stagnate once their office has been merged with a bigger bank.

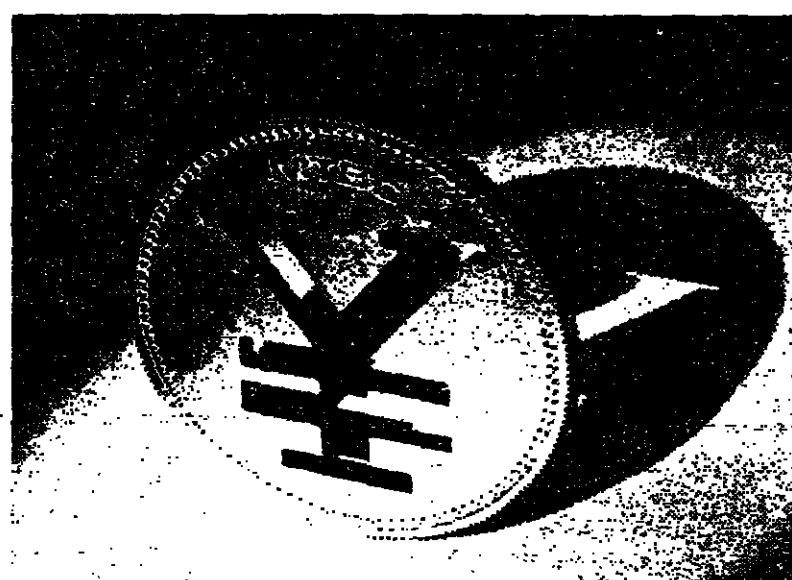
Of more immediate concern to the big banks is the increasingly swollen level of public debt in Japan. In fiscal years 1979 and 1980 alone Japan's budget deficit amounted to \$11.8bn. This deficit is financed largely through the issue of long term Government bonds.

Japanese banks have been persuaded through the MOF's "administrative guidance" to buy over half these bonds. This has strained the bank's own liquidity positions by tying up an ever larger portion of the banks' assets in Government paper. When Japanese interest rates started to rise last year secondary market prices for these securities plunged, with serious effects on bank profits.

MOF has partially alleviated the situation by allowing the banks to change accounting methods to cover up some of these losses. But the Government's reluctance to raise taxes significantly, for obvious political reasons, insures that these large deficits will continue for some time.

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Profits fail to match growth of assets

UNPRECEDENTEDLY high interest rates caught the Canadian banks in a profit squeeze which marked the first half of their current year of account to October 31 next. Rates then dropped sharply but may have overshot. Besides, with recession developing, demand is expected to fall.

Most analysts expect nothing like a repetition of the 13 per cent growth of bank profits during 1978-79, let alone of the growth of more than a third in the year before.

Two figures for the quarter to January 31 illustrate the point: aggregate assets of the chartered banks were 20 per cent higher than a year before; but profits were only 0.5 per cent higher. Second quarter figures are not expected before the end of May, but are unlikely to be better.

Profits apart, political uncertainties have been sharply reduced by the referendum on May 20 when voters in Quebec rejected the idea of sovereignty for their province. That removed one strong reason for keeping

interest rates high to protect the exchange rate. But on the other hand inflation remains strong and the future of Quebec is far from settled.

Moreover, the return to power in February of Mr. Pierre Trudeau and the Liberal Party has worried the business world. It has thrown into the melting pot Canadian energy policy—probably the central economic issue in the country—and has raised the possibility that budgetary deficits will continue.

For this year the central Government is likely to have to borrow some C\$12bn (about \$4.4bn). Moreover, Mr. Trudeau has been making nationalist noises which could frighten off foreign investors whose funds are traditionally the element that balances Canadian external payments. This year a current deficit of C\$6.5bn-7bn is in prospect.

On the economic side, Canada has hopes that it will get by with a recession less deep than that in prospect in the U.S. But

little growth is expected in 1980, following last year's creditable increase in GNP of 2.9 per cent. From 1981 on, things should once again improve.

In the longer run, the country's economic prospects must be considered bright. It is a net exporter of energy, though the self-set target of self-sufficiency in oil (as opposed to energy overall) by 1990 is going to be hard to hit. Authoritative estimates foresee energy projects swallowing C\$1,400bn by the end of this century, which should give bankers enough to do.

Inelastic

The present profit squeeze has come about because the cost of refinancing has risen quickly while mortgages and consumer credit, which play an important part in the loan portfolios of the Canadian banks, have proved relatively inelastic.

For technical and political reasons, interest on consumer credits is usually slow to react to changes in the general level

of interest rates in Canada. Since about a third of the banks' outstanding general loans are personal loans, the effect on spreads can be imagined.

That is even more true of mortgages, which amount to about eight per cent of the banks' loan portfolios. It has been Canadian practice to renegotiate mortgages every five years. That means that most outstanding mortgages bring what by today's standards is too low a return.

The banks have found some compensation in their foreign business which, being largely wholesale, avoids the difficulties that have overtaken mortgage and consumer lending. At the end of 1979 foreign exchange

assets accounted for 36 per cent of the chartered banks' aggregate assets of C\$229bn (and that amount does not include the business done by branches and affiliate companies, mainly in the Caribbean and Europe).

On the other side of the ledger competition for deposits has been fierce. One trust company has been offering 13 per cent on a cheque book savings account, with free cheques, provided the balance does not fall below C\$1,000.

On the banks' side, 3 per cent has been offered for a similar account, provided the balance does not fall below C\$200. Even with interest calculated daily, these terms are far cheaper than those in the wholesale market.

Two banks have been espe-

cially hard hit by the interest cycle. Bank Canadian National had almost 30 per cent of its assets in mortgage and consumer lending, which must have reinforced the argument for its merger, last year, with the other so-called Canadian "franchise" bank, the Provincial Bank of Canada. They now are in business as the National Bank of Canada.

The second bank to have suffered is IAC/Continental Bank of Canada, which is in the process of transforming itself from a finance company to a bank. As a finance company it took wholesale deposits, re-lending in the form of consumer credit, evidently an unprofitable mix under present circumstances. Once interest rates are over their cyclical peak both National Bank and Continental Bank should find relief from present pressures.

IAC's decision to turn itself into Continental Bank was taken in anticipation of a new regulatory act which has been debated for several years and at least looks like coming into

force this year. Among other things it will simplify entry into banking which, hitherto, has required an Act of Parliament for every new bank hence the name "chartered bank".

Once in force, the new Bank Act will open the world of financial leasing and factoring to the banks. But they have lost several battles, in particular the battle to be allowed to sell data processing services except where they can show that the service is "bank related".

Their foreign exchange liabilities will be subjected to a reserve requirement, yet it is calculated that the reserves which they will have to maintain out of interest with the Bank of Canada, if one assumes the present composition of bank liabilities, will be reduced by about one-third of C\$1.5bn.

Easily the most interesting aspect of the Bill before Parliament is that it will allow foreign banks to set up bank subsidiaries in Canada. Under present law that is not possible, though it has not

stopped the creation of foreign near-banks which engage in most forms of banking, generally on the wholesale side.

They did not have access to the Bank of Canada as lender of last resort and were not allowed to call themselves banks, but they have run up assets of C\$6.4bn.

The proposed reform, which Parliament is expected to approve with few changes, would impose a double curb on foreign-owned bank subsidiaries.

Between them, they would not be allowed to grow beyond 8 per cent of total domestic lending by the Canadian banking system. Moreover, their authorised capital would require ministerial approval, and domestic assets would be held to 20 times authorised capital in each individual case.

Most of the 40-odd foreign owned near-banks in Canada are expected to apply for bank licences despite these restrictions. Certain incentives have been built into the legislation to encourage applications.

Diversification prompts added controls

The South African banking scene is dominated by five major groups which, despite a decade of rapid expansion and diversification within the banking system, have managed to retain and even reinforce their position. In turn, four of the five groups revolve around major commercial banks, which remain by far the most substantial institutions in the industry, two of them under foreign control.

Nevertheless, the trend in South African banking in recent years has been for most expansion to occur in the more specialised banking activities, with the result of a rapid proliferation in the numbers of smaller institutions. Moreover, despite the fact that some 20 major foreign banks have representative offices in Johannesburg, the foreign stake in the banking sector has been gradually reduced.

The banking system is presided over by the South African Reserve Bank, which performs virtually all the functions normally associated with central banking except that of administering the national debt. Thus it acts on a day-to-day basis both as the bankers' bank and the banker to the Government, holding the required cash reserves of the commercial banks and acting as clearing house for interbank claims. It both advises the Government on appropriate monetary policies and is responsible for the execution of such policies, such as the imposition of credit

ceilings and liquid assets and cash reserve requirements. Finally it has a role in actively encouraging or discouraging the development of new financial markets, institutions or instruments.

One major function of the Reserve Bank is as the sales agent for all South Africa's gold bullion production. As a result it maintains an overwhelming dominance in the foreign exchange market, despite efforts over the past 18 months to create a freer and more genuine market in foreign currencies.

Assets of the big five banking groups in 1979 totalled R22.5bn (\$28.25bn), compared with R20.1bn (\$25.1bn) the previous year. The two largest groups, Barclays National and the Standard Bank Investment Corporation (Stanbic), remain under foreign control. Barclays group assets totalled R6.8bn (\$8.5bn) and Standard's R6.2bn (\$7.8bn) last year. The largest South African group, Nedbank, controlled assets totalling some R37bn (\$4.6bn), followed by Volkskas with R3bn (\$3.75bn) and Bankorp with R2.9bn (\$3.6bn). Bankorp is the only major group not

centred on a commercial bank of the same name, in its case having Trust Bank, a so-called general bank concentrating more on corporate business than cheque-accounts, as its major element.

The move away from traditional commercial banking has included merchant banks, discount houses, hire purchase and leasing specialists and the general banks. Thus the share of deposits held by the commercial banks has fallen from more than 58 per cent in 1950 to under 40 per cent today.

However, each major group based on the commercial banks now operates subsidiaries specialising in the different fields. Barclays has Wesbank (a general bank) and Barclays Merchant Bank, Standard has Stanbic (hire purchase and leasing), Standard Merchant Bank and Standard Corporate Finance. Nedbank has UAL (merchant bank) and three general banks in the group—Nedfin, Syfrets and Nefic. The Bankorp group includes Senbank (merchant) and Santambank (general), apart from Trust Bank, while Volkskas controls the country's fastest growing merchant bank, Volkskas Merchant.

The diversification of banking has meant the need for a growing number of controls—sometimes apparently uncoordinated—being imposed by the Reserve Bank. Currently the whole field of monetary policy is under review by the commission of inquiry headed by Dr. Gerhard de Kock, the bank's senior deputy governor and special adviser to the Minister of Finance.

The first major innovation proposed by the de Kock commission, the creation of a foreign exchange market and a managed float of the rand, has developed very gradually over the past year since the introduction. The Reserve Bank has proved to be rather more conservative than expected in allowing the market to fix daily rand exchange rates and has ended up effectively dictating its movement. However, the major foreign exchange dealers have found their margins squeezed under the new system, compared with the previous regime which provided a guaranteed spread of 50 points between buying and selling rates.

The Central Bank still manages the exchange rate, but the banks are free to quote what-

ever spreads they like. After an initial period of savage rate-cutting the market has stabilised. Although dealers occasionally quote spreads of no more than two or three points, 10 points is the norm.

Outflow

The latest move by the Reserve Bank has been to use the imposition of a forward discount on dollar transactions more actively, as the interest rate differential between persistently low rates in South Africa and high rates in the U.S. and Europe has precipitated a heavy capital outflow. Thus the discount was suddenly increased from 2.5 per cent to 12 per cent, and the amount of trade finance switching, estimated at some R2bn (\$2.5bn) in the first four months of the year, has appreciably declined.

One important area to be tackled by Dr. de Kock when he produces his final report, expected later this year, will be the rapid growth of the so-called "grey market." This has come about because of the persistent differential in domestic interest rates between the money market and bank lend-

ing. Thus bank rate, currently at 7 per cent, has not reflected the fall in money market rates, where, for example, three-month NCDs bottomed at around 4 per cent last November. With the bank's prime overdraft rate tied by agreement at a minimum 2.5 per cent above bank rate, the gap has provided ample room for speculative banking.

The result has been that few big corporate borrowers use overdraft finance when they can arrange acceptance and other types of credit at around 6 per cent a year. Moreover, the smaller banks are making a habit of offering cheap overdrafts on the grey market, and then switching them (as well as the cheap call deposits which fund them) to large banks just before the end of each month. This is when banks' liabilities are assessed for the purpose of liquid asset requirements. The practice inflates the lending books of the larger banks and forces them to reserve extra amounts of low-yielding liquid assets.

The recent rapid upturn in the South African economy has exposed other areas of instability or potential overheating within the banking system. One

of the fastest growing areas of the banks' business has been consumer credit and leasing finance. Barclaycard's turnover jumped by no less than 83 per cent last year, while the value of equipment bought through its leasing division rose by 40 per cent. Standard Bank is sufficiently worried by the sharp increase in its credit card and hire purchase advances that it has increased its bad debt provisions to cover what it calls "these higher risk areas."

Some banks have also recorded a rapid—some would say disturbing—growth in their contingent liabilities, which include performance guarantees and bill endorsements. Volkskas' contingent liabilities totalled R776m last December, almost 50 per cent higher than in June. Rand Merchant Bank, the country's smallest, reported contingent

liabilities of R53m at the end of the year.

The level of foreign ownership of South African banks is already subject to an agreement where the local shareholding will be stepped up to 50 per cent by 1988 in terms of the Banks Act. Thus Barclays International disposed of 2m shares in its South African subsidiary during 1979, lowering its holding to 80.03 per cent, against 63.8 per cent in 1978. Although Standard Chartered did not reduce its stake in Stanbic in 1979, its share at 59.54 per cent is already slightly lower. According to bankers, there are signs that Pretoria may relax the 1986 deadline—and indeed it is rumoured that at least one U.S. bank is keen to open a commercial banking office in Johannesburg similar to that already operated by Citibank.

MAJOR SOUTH AFRICAN BANKING GROUPS

	Assets		Net income	
	1979	1978	1979	1978
Barclays National Bank	6 808.4	5 691.9	62.6*	36.5
Standard Bank Investment Corp. (Stanbic)	5 121.2	4 401.7	49.3	39.7
Nedbank Group	3 718.7	3 286.7	47.4	36.7
Volkskas	3 080.0	2 923.0	22.8	16.8
Bankorp	2 871.3	2 422.5	14.2	9.9
* 15 months.				

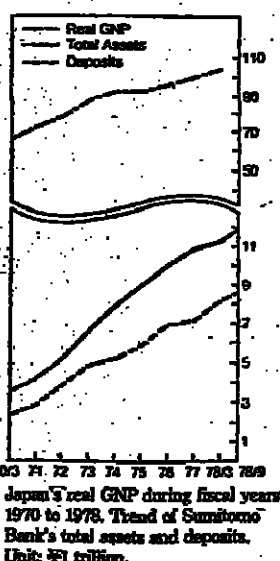
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CORRESPONDENTS: Throughout major financial centres of the world

Joint venture branches abound

EGYPT

ALAN MACKIE

IN THE SIX years since President Sadat launched his "open-door" policy there have been dramatic changes in the way Egypt's economy is run. Nowhere has this been more evident than in banking, where there has been little short of a revolution.

Six years ago a couple of offshore banks, the Arab African International Bank and the Arab International Bank, were operating in Cairo dealing with specialised international transactions. The Big Four nationalised banks had a virtual monopoly of banking business, and as most industry and commerce was nationalised, they were doing business in a public-sector cartel.

Today the Big Four—National Bank of Egypt, Bank Misr, Banque du Caire, and Bank of Alexandria—still account for around 80 per cent of commercial banking activity, but some 35 foreign banks, either established in Cairo as representative offices, branches, or joint stock banks, have brought not only competition, but a growing sophistication of services.

Branches of joint venture banks are sprouting in most of the more prosperous areas of Cairo. Most now have branches in Alexandria, some in Port Said. Misr America International, a joint venture between Bank of America, Development Industrial Bank and local institutional investors, is looking at the delta. Leaning on its DIB connection, it is probably going to set up in Tanta where DIB already has a branch.

The proliferation of branches reflects the need of the joint venture banks to find Egyptian pound deposits. Only joint venture banks with a controlling Egyptian interest may deal in Egyptian pound accounts.

This has always been a problem because these banks may not compete on interest rates, only services. At the same time an increasingly sophisticated lending public, which is usually transferring remittances from abroad, has become wise to the attractions of holding on to their hard currency rather than converting it into Egyptian pounds. The key lies principally in the interest rate differential—at one time as much as 8 per cent—between what a depositor can obtain on Egyptian pound and dollar accounts.

The authorities have moved on two fronts. First, they plugged a loophole whereby Egyptians could borrow in dollar, enjoying the interest differential, by requiring local banks to charge the same interest on Egyptian pound loans as would be paid on dollar deposits.

At the same time the Government has adopted under IMF prodding a policy of raising interest rates gradually—they were raised across the board on April 1 by 1 per cent, bringing the central bank discount rate up to 9 per cent—to meet falling international rates later in the year. The policy appears to have been vindicated by the subsequent sharp fall in dollar interest rates.

Despite easing pressure on the Egyptian pound, the cur-

rency is still in very short supply, lending some truth to the assertion that Egypt is becoming increasingly a dollar economy.

This deepening of the roots also reflects a growing participation in development projects—the reason the foreign banks were granted their licences. Set against the estimated \$3bn foreign currency held by Cairo banks (a further \$2bn is held abroad), the \$150-200m actually committed by these banks to projects is still small, but it is growing. The banks are also beginning to play an important role in finding financial partners.

Only a few are able to do feasibility studies. The best known is the Misr Iran Development Bank which, since its establishment in 1975, has initiated projects worth some \$270m ranging from a textile mill to agro-industrial projects.

Another up and coming investment group is the Joint Arab Investment Corporation (Jalcorp), a joint Egyptian United Arab Emirates organisation, which has not only taken part in syndication issues but has actively sought out investment opportunities, and investment partners.

It recently formed a construction joint venture with the

British Bernard Sunley group after sounding out three other European contracting groups to see if they would be interested.

Other financial institutions with the capability to carry out feasibility studies are the Arab Investment Bank, Arab African International Bank, the Suez Canal Bank, a local private bank recently established with Egyptian capital, and the Islamic Faisal Bank, Egypt's first private Islamic bank based on banking without interest.

The joint venture banks, under the lead of MIDE, are raising small equity stakes in the joint ventures they help put together, but U.S. banks are resisting this trend mainly for legal and corporate policy reasons.

The further development of medium term lending has a number of questions, particularly a reform of the interest rate structure and a floating pound. Most people accept that a devaluation will come but for the time being the central bank does not feel it has the reserves to sustain a float.

An attempt to tap the Euro-dollar market for \$300m a year

ago has been the only real casualty of Egypt's rift with the Arab world over the peace treaty with Israel.

Arab private funds are still being deposited in Cairo. Four Arab banks, Arab African International and Arab International of Cairo, Union de Banques Arabes et Françaises de Paris and the European Arab Bank of London were all set to lead manage, with four European and American banks, a split level 1-1.375 per cent above LIBOR 3 year loan for the central bank when the Arab banks withdrew.

A further attempt by Citibank to salvage a loan for Egyptair out of the syndication also fell through, largely because of the steep rise in Eurodollar rates in the interim. The exercise was more to test Egypt's credit rating in international markets than a need for cash, and it is unlikely with oil revenues of \$700m for the first quarter of 1980 alone flooding central bank coffers, that it will be repeated for some time.

Arab International has raised a \$25m general purpose loan in the Eurodollar markets. The National Bank of Egypt has meanwhile tried to float \$30m floating note issue at a split 1-1/4 above LIBOR but the issue has had to be suspended while tax complications are ironed out.

Some bankers also feel that

medium term lending could well be impaired unless the central bank sets up some system whereby it acts as a lender of last resort, or a money market where bills could be discounted. The banks help each other informally when they need overnight funds, but there is little local understanding that safe banks do not borrow short and lend long.

A capital markets authority is being set up to look into this and other problems, notably the mobilisation of domestic savings and the establishment of a functioning stock market. Cairo has a stock exchange which exists in a state of suspended animation because of swingeing tax liabilities.

The capital markets authority will also be looking at ways of developing local and international syndication funding. Although local syndications are now quite common the manner of syndication and project analysis is often primitive.

Despite the gradual deepening of banking institutions, most foreign banks and their affiliates are going to continue to tap the lucrative short term supplier credit business. The danger here is that some of the less experienced new banks will cut their margins too fine and run into difficulties should there be a shakeout.

However, there are few signs that conventional bankers are losing much sleep at the thought.

Region of marked contrasts

THE CARIBBEAN

HUGH O'SHAUGHNESSY

THE CARIBBEAN is a region of contrasts for the banker. Few other places in the world could offer the variety of circumstances in which bankers work.

At one extreme lies Cuba, where President Castro's own brand of Marxist Leninism, the island's lack of financial resources and its critical dependence on the Soviet Union mean that banking is tightly and jealously controlled by the State. The chairman of the National Bank of Cuba has a seat in the Cabinet and his word is as important as that of most other Ministers.

Besides carrying out domestic banking in the island itself the bank has representative offices and branches abroad. In London it has set up its own subsidiary, The Havana International Bank, which finances international trade and participates in consortium loans like dozens of other foreign banks in the City, despite the fact that Cuba must be careful not to place assets in the U.S. for fear of confiscation.

At the other end of the spectrum are the tiniest islands of the region where poor and struggling governments offer financiers every freedom in the hope that they will come and set up shop. In the small islands in recent years there has been an increasing number of operations of very doubtful legitimacy and honesty. Things have got so bad that it is now the constant nightmare of the larger countries which have interests in the Caribbean that one day some smaller territory will be taken over financially by some shady operator installed behind the shaky sovereignty of some nominally independent member of the U.N.

In between the extremes total State control and total lack of regulation comes an infinite gradation of banking situations. Bigger countries such as Jamaica and oil-rich Trinidad have insisted that the major foreign banks such as Barclays and the big Canadian institutions which are very powerful

all over the Caribbean should incorporate their operations locally and invite participation by local shareholders. Initially resisted by the banks, local incorporation is now accepted and taken for granted in the bigger territories.

In the smaller islands which have few of the resources of a Jamaica or a Trinidad and Tobago local governments have been in the business of offshore banking and the provision of tax havens for several decades and have now brought it to a fine art. The advantages brought in by this sort of privilege banking and the success made by the older exponents of it have this year tempted several more Caribbean governments to offer new inducements to foreign bankers and offshore funds.

The Bahamas, at a time when they were still a British colony and before they became independent, was the first territory to start the pattern. Taking advantage of the status of a Crown Colony and the proximity to the U.S., the Bahamas quickly attracted financiers and companies from all round the world.

Typical of the spirit of the 1950s in the Bahamas was the agreement between the government of the day and the Grand Bahama Port Authority which gave almost extra-territorial rights to a U.S. financial group on the island of Grand Bahama. Freeport was set up and by the mid-1950s its population had tripled to 35,000 people in the course of 4 years. Political pressure in the event caused government controls to be applied in 1969 and Freeport has since become something of a monument to those who wanted to go too far and too fast.

The Cayman Islands, still a British colony, was a later entrant to the offshore banking business but in more orderly

and uneventful ways. A set of banking regulations for the territory was fought out in collaboration with the Bank of England.

With less than 20,000 inhabitants, the Caymans, 200 miles from Jamaica and 500 miles from Miami, cannot offer the facilities of the bigger islands but the colony picked up a great deal of business in the 1970s when the Bahamian Government became more restrictive and started limiting the entry of expert foreign banking personnel. Many international banks use the Caymans as convenience slots through which to book business effectively done in Europe and North America.

The Dutch Antilles and Curacao in particular are also long-established tax havens and offshore banking centres under a European flag. With eight fully operational banks, from the Algemeene Bank Nederland to the Bank of America, Curacao has all but forgotten the fright it gave foreign bankers in the strikes and riots of May 1969.

Barbados is now bidding to join the ranks of offshore bankers. Lons aloof from the financial manoeuvrings of more adventurous islands Barbados, under Prime Minister Tom Adams, is not trying to encourage the new banking industry. Given its political stability, sophistication and pleasant pace of life it will certainly be a strong candidate for new business.

Nevertheless fears remain that the smaller islands where governments less respectable than that of Mr. Adams will eventually succumb to the blandishments of unscrupulous financiers and return the Caribbean to an era of financial dubiousness which many bankers had hoped had become only a memory.

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WORLD BANKING XXXVII

Subjected to further nationalisation

Flooding along the course set for it since 1969 when Mrs. Gandhi's Prime Minister, first nationalised the top 14 commercial banks, the banking industry was shaken again last month when she administered her second dose, nationalising another six commercial banks, each with deposits to more than Rs2bn. As a result nearly 90 per cent of the banking industry is now in the public sector.

Mrs. Gandhi's ostensible reason for the second instalment of nationalisation was that it would help the "weaker sections" of the population. This was the stated purpose in 1969 also, but since then the performance of the nationalised banks has, on the admission of the government itself, been mixed. Hence the conclusion that, like the takeover in 1969, last month's move was also politically motivated. Elections to the State assemblies are due at the end of this month, and in the absence of any economic policy-making since she became Prime Minister again last January, Mrs. Gandhi needed something to improve her sagging "Socialist" image.

Finance Ministry officials admit privately that nationalisation by itself is no panacea for the country's economic problems, especially in the light of the performance of the 14 nationalised banks since 1969. Yet progress has undoubtedly been made towards the object of taking banking to people not provided with bank services, although this has eroded the profitability of the banks themselves. The main reason is that recovery of loans from the so-called "priority sector"—which includes small farmers, traders, the self-employed and the small entrepreneurs—has been difficult.

At a conference of chairmen of the nationalised banks on March 6 last—when it was decided that the share of bank loans to the "priority sector" should be raised from 33 per

cent to 40 per cent—it was admitted that the recovery position was "very bad." The problem is compounded by difficulties in identification of borrowers, the increasing proportion of defaults, high cost of administration and the general dilution of business norms.

The decision that the nationalised banks should focus

sectors could be substantially improved, the primary objective of taking banking to the "neglected" sections is being increasingly achieved, albeit at a high cost. Recent studies show that several schemes prepared by banks have made some impact on the district and even the village economy. Nevertheless, progress is slow

INDIA

K.K. SHARMA

their attention on the priority sectors has created something of a problem since the main source of revenue—loans to the organised corporate sector—is strictly limited by both the Government and the Reserve Bank, which continue to enforce a tight money policy leading to pressure on liquidity and working capital availability for the private sector.

Profitability has been falling since 1975. In terms of profits to net working capital it declined from 0.23 per cent in 1975 to 0.21 per cent in 1976, 0.15 per cent in 1977, and 0.15 per cent in 1978.

Of the total available for lending—apart from the amounts tied up statutorily in Government bonds and the like—one-third (now to become 40 per cent) is earmarked for loans at low rates of interest to farmers in the priority sector. Another 1 per cent goes for loans under the "differential" rate of interest scheme, which really means a marginal and losing rate. Substantial parts of the rest go to finance food procurement and trading. This is a major reason why companies have been forced to accept deposits directly from the public.

It is acknowledged, however, that although the administration of the loans to the priority

and it is for this reason that the Government has decided to start regional rural banks to cater to the specific needs of the farmers. These banks have still to make a mark and the problem of making credit available to agriculturists remains by and large unresolved.

This is despite the fact that bank branches have proliferated (another reason why it is difficult to understand in economic terms the need to nationalise more banks). According to a recent study the number of rural branches rose from 1,832 to 13,644 from June 1969 to September 1979. The total number of branches rose from 8,262 to 30,604, so banking continues to be largely urban-oriented. This has been some shift in the pattern in recent years, however. During 1977 and 1978, of the total number of 5,683 branches opened, 68 per cent were in the rural areas. During 1979 the trend continued and of the total of 1,103 branches opened in the first nine months of the year 76.5 per cent were at rural centres.

Banks will open more branches by 1981, primarily in the rural and semi-urban centres in districts where a single branch covers less than 20,000 people. Of the additional 6,501 branches needed in the dis-

tricts by 1981, licences of allotments for 3,702 have already been issued by the Reserve Bank, which is occupying an increasingly important role not only in laying down credit policy and monitoring its implementation but in carrying out the proclaimed socio-economic goals of the Government.

Now that Mrs. Gandhi has brought nearly the entire banking system under public control (the foreign banks, which make up the bulk of the remaining private sector, are not to be touched although they too have to conform to the controls imposed by the Reserve Bank), some thought is being given to restructuring of the industry. The main proposal being debated is the dovetailing of the nationalised banks with the regional rural banks and credit co-operative societies, bringing about in the process a certain degree of specialisation in geographical and regional terms. So far, this has been sought through the "lead bank" scheme under which a particular bank is to study the special needs of particular areas and formulate plans to meet them.

To be discouraged is the unhealthy competition that has crept in among the nationalised banks, each of which works independently for achieving targets for deposit mobilisation and credit disbursement so as to show that it is working for the Government. There is considerable window-dressing as a result and there is a growing feeling that target-orientated banking should be discouraged. The need to offset the losses as a result of lending to the priority sector has also led to inter-bank competition for deposits and the giant public sector undertakings. This has hampered the progress of the lead bank scheme and is among the many reasons for the early introduction of reforms and restructuring of the banking industry.

Closer involvement in overseas scene

NEW ZEALAND'S five trading banks are operating in a period of increasing inflation—possibly reaching a rate of 20 per cent this year—a slow-down in economic activity, falling retail sales in real terms, further deterioration in the balance of payments, higher unemployment and a reduction in personal savings and the level of individual financial assets.

At the same time they are in a more competitive situation in seeking deposits and are better equipped to compete with non-banking financial institutions and finance houses. The gloomy economic situation does have the prospect of brightening by the middle of this decade as New Zealand starts to reap the benefits of developing its extensive natural energy resources.

The banks are keen to be deeply involved in organising the massive injections of foreign capital which will be required to develop the proposed energy projects. They had no trouble recently in negotiating a NZ\$500m overseas investment package to expand New Zealand's refinery.

It is estimated that overseas investment of between NZ\$25bn and NZ\$32bn will be required for energy projects based on New Zealand's extensive natural gas and lignite coal deposits along with the utilisation of wood waste and timber to produce liquid fuel. The banks are stressing their know-how and access to foreign capital markets.

Largest
The largest of the trading banks in terms of branches, deposits and loan business is the Bank of New Zealand, which has over 40 per cent of both borrowing and lending business. Then comes the ANZ with 21 per cent of total business, the National Bank with 15 per cent, the Bank of New South Wales with 11 per cent and the Commercial Bank of Australia with 7 per cent.

or in similar areas. The number of branches has remained constant for a number of years.

Perhaps because of the ease of access to a bank branch New Zealanders make relatively high use of them. Despite the country's relatively small population of under 3m the trading banks operate 1,35m accounts and another 1.45m savings accounts. The Post Office Savings Bank holds many thousands more deposit accounts.

Many New Zealanders operate more than one bank account. New Zealand banks do not pay

and 147 per cent in 1975. The banks could not raise interest rates on deposits, the Government, which was attempting to maintain a low interest rate policy, would not raise the official rate or allow the banks to do so.

This resulted in a rapid growth of alternative financial institutions. Small investors particularly were attracted to these finance houses, where they could get a much better return but where the risk was also much higher. The result was almost inevitable, with some serious financial crashes affect-

ing thousands of small depositors.

With the new competitive climate and the freeing of interest rates banks have been able to compete for a much bigger share of deposit money and have been able to increase their interest rates. These, however, are still well behind the current inflation level of 18.5 per cent. Average interest rates are around the 12 per cent mark for amounts up to NZ\$12,000. For really big depositors, with NZ\$2m or so to invest, the rate will go up to 5 or 15.5 per cent.

However, because of the way they were able to expand finance houses and non-banking institutions still have a large grip on the financial structure. New Zealand's trading banks at present account for less than 25 per cent of the loans and investments arranged by financial institutions. The banks have, however, started winning back deposits from the large institutions. The trading banks' share of total institutional deposits declined steadily from 40 per cent in 1950 to a low of 27 per cent in 1969. Since then it has improved and now stands at 42 per cent. The Trustee Savings Banks have also improved their share of the market but much of this has been the result of small depositors switching from the Post Office Savings Bank.

Although they are all independent New Zealand's trading banks have joined forces to produce a computerised system which is unique. Jointly they have established "Data Bank" which does all the processing for each individual bank.

Beginning with one main centre Data Bank has now nine processing centres strategically placed around the country. Fast courier cars rush the bank paper and records of each day's transactions to the nearest centre

where they are processed overnight. Each bank has its own terminal but Data Bank cuts down paper work and saves a considerable amount of time in processing transactions. New Zealand was able to institute this system because of the limited number of trading banks operating in the country and because all five of them operate nationally with branches spread throughout the country.

Over the past decade the pattern of banking and the involvement of trading banks has changed considerably. New Zealand has always been an internal trader of considerable size on a per capita basis. For example, an International Monetary Fund report listed New Zealand fourth for its level of exports and imports among the world's leading trading nations on a per capita basis. It is in fact ahead of Australia, Japan and the U.S.

However, in the past 25 years the country's trading patterns have changed dramatically and the banks have had to change to keep pace with this. The former isolation of New Zealand banks has gone forever and even if they wanted they could no longer maintain their isolation from banking developments in the rest of the world.

It is now possible for a New Zealand company or bank to obtain cover for nearly every kind of transaction in foreign currencies and New Zealand companies can cover themselves against potential loss on borrowing in foreign currencies.

Without this the declining strength of the New Zealand dollar over the past year could have resulted in substantial losses to New Zealand exporters. Banks can now advise on the cheapest source and method of utilising foreign funds.

Unnoticed
In less than a year the New Zealand dollar has been devalued by 9 per cent, though almost half of this devaluation has gone unnoticed outside financial circles. In June 1979 there was an official devaluation of 5 per cent, and a new method of fixing exchange rates was introduced. The value of the New Zealand dollar is now adjusted monthly to reflect the comparative rate of inflation between New Zealand and its major trading partners. In the 10 months after the official 5 per cent devaluation of the New Zealand dollar has declined by just under half of 1 per cent each month.

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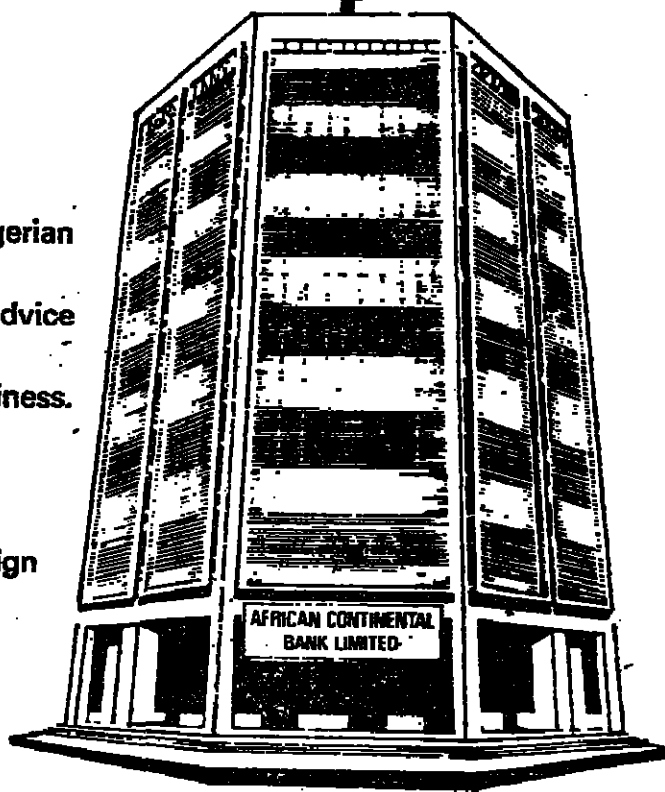


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WORLD BANKING XXXVIII

The Regulatory Framework

Supervisors in close consultation

REGULATING BANKS has become an international business these days. If the man from the Bank of England is not in aBSE meeting fellow bank supervisors from the Group of Ten countries (plus Switzerland and Luxembourg) then he could well be found in Brussels at a meeting of either the EEC Advisory Committee or the EEC Contact Committee. All this international activity arises because bank supervisors have in a sense followed their banks abroad. This is one important way in which regulation has adapted to modern changes in banking that have made banks more diverse and complex institutions.

Another result of this growing diversity and complexity has been widespread reform of banking legislation. New banking laws have been enacted in Belgium, the Netherlands and the UK and major revisions are under way in Canada and Japan. Substantial amendments to existing laws have been effected or are being proposed in West Germany, France and Switzerland.

The need for more sophisticated supervision has arisen, paradoxically, because in some respects banks in the major countries now enjoy more freedom than they did, say, 25 years ago. Although restrictions of one sort or another still exist everywhere, there now tend to be fewer direct credit controls, interest rate ceilings and cartels, branching restrictions, exchange controls and restrictions on overseas expansion. As long as banks were subject to such controls, the opportunities for putting their depositors' money at risk were that much less. As restrictions have been relaxed, the need for prudential supervision has increased accordingly.

Soundness

A feature common to bank regulation in all major countries is a system of balance sheet ratios designed to control or monitor the soundness of individual banks or the banking system as a whole. The use of such ratios has become both more widespread and more sophisticated. These prudential ratios are frequently applied in parallel with monetary and credit controls, though the aims of the two are normally distinct. The authorities in all major countries insist that an aspiring banker must put up a certain minimum amount of capital before he can start business. Invariably, the sum required is higher than needed to start up a company engaged in any other business. The amount varies widely from country to country, but the trend has been upwards. It can be as low as \$25,000 for a one-branch bank in the U.S. (though the Federal authorities would probably want more) to over \$8m for a banque d'affaires in France.

On top of the minimum capital needed to start up from scratch, banks generally face limits on the size of their balance sheet equal to some multiple of their capital. For most banks this means having to hold more capital and reserves than the initial minimum. In some countries, including Denmark, Italy and Luxembourg, the controls are on a bank's deposits, thereby limiting the extent to which a bank's assets are financed by depositors' money as against its own funds.

In recent years more emphasis has been placed on the need for capital to absorb losses and so commonly now a bank's assets are limited to some multiple of capital. This approach has the advantage that different types of asset can be given different weightings in the calculation according to their risk. For some time the German authorities have set a limit, equal to 30 per cent of capital and reserves, on the sum of a bank's positions in each individual currency. The Bank of England now proposes to adopt the same approach, with the addition of a further ceiling

to diversify, many countries limit the amount a bank can lend to one customer. This is normally expressed as a proportion of a bank's capital and varies from 10 per cent in the U.S. to 100 per cent in Italy. In Japan the limits on large loans which were introduced in 1974 are forcing major trading companies such as Mitsubishi and Fuyo to curtail their borrowings from "house" banks. A particular problem arises in the case of international bank lending, much of which is to publicly owned institutions. In the U.S. this has led to the introduction of complex rules to determine whether lending to different public sector borrowers in a foreign country should be considered as a single sovereign risk.

Typically, there are also restrictions on the amount of a bank's funds that can be tied up in fixed assets — land, buildings, equipment, investments in subsidiaries — that are generally reckoned to be relatively risky or illiquid. Banks in

on the position in any one currency.

Ratio controls are enforced with varying degrees of strictness in different countries. The important distinction is between those countries, particularly on the Continent, where the detailed requirements are laid down by law and those, such as the UK and Canada, where the supervisors are given discretion in applying (or waiving) them. Even where the approach is more legalistic, the authorities are generally well aware of the dangers of premature or heavy-handed action against a bank.

Consistent

There are countries where the authorities are obliged to consult the banks before imposing or altering ratio controls and in Luxembourg there are even provisions allowing the banks to vote on such measures.

Frequently official ratio controls do no more than codify what the banks are doing anyway. The trend historically, however, has been towards

ensuring that no international offshoot of a bank at least in a major country, escapes the supervisory net. The trend now is for more home country control, so that the supervisory authority of the parent bank assumes more responsibility for its activities worldwide. This involves putting controls on the consolidated balance sheet of international banking groups. This policy, already used by the Dutch, is now being adopted by the Swiss and will soon also be put into practice by the Bank of England.

Controls on consolidated positions are easier to apply in countries such as the UK where regulation is less legalistic but are more difficult to implement in countries like Germany and Switzerland where bank revisions in the banking law would be required to bring offshore subsidiaries under the control of the domestic authorities. Nevertheless, the Swiss authorities are pressing ahead with the required legal changes. The U.S. and Canadian authorities have of course been monitoring the activities of their banks' overseas offshoots for some years.

INTERNATIONAL LINKS

PETER CONOBY AND DIMITRI VITTAS

several Continental countries are forbidden to invest depositors' money in such assets. In the UK and Japan banks are also expected to maintain some "free" capital over and above the amount invested in fixed assets. As well as having a prudential purpose, such controls often also serve to prevent banks buying up large stakes in other industries.

When it comes to liquidity controls on banks, the approach of supervisory authorities (and banks themselves) has as a general rule become more sophisticated. There is widespread recognition that the traditional view of bank liquidity — cash and very liquid assets — takes no account of the growing foreign currency business of banks and the development of money markets as a source of liquidity. The modern trend is to accept that a wider range of assets can meet banks' liquidity needs. Bank supervisors commonly now look at both sides of the balance sheet to monitor or control the amount of maturity mismatching — borrowing short and lending long — that banks do. Often the next step is to assess liquidity needs according to the extent of the maturity mismatch.

Some countries do still stick to the conventional narrow view of liquidity and insist that banks hold a minimum amount of cash. Swiss banks, for example, have to maintain fairly large amounts of cash and balances with the central bank and postal giro in relation to their current liabilities. Paradoxically, the banks actually exceed the minimum legal requirement by a very large margin, though this may reflect the lack of short-term money market instruments in Switzerland — a shortcoming the Swiss authorities are trying to remedy.

The losses experienced by a number of banks in the 1970s as a result of their foreign exchange dealings has led to a new emphasis on controlling and monitoring foreign exchange risk. In these countries with exchange controls banks are constrained to an extent by limits on the amount by which they can take net positions against their own currency. This on its own would not prevent, say, a French bank taking a large uncovered short position in dollars against sterling. For some time the German authorities have set a limit, equal to 30 per cent of capital and reserves, on the sum of a bank's positions in each individual currency. The Bank of England now proposes to adopt the same approach, with the addition of a further ceiling

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These early warning techniques are most developed in the U.S., where the various Federal regulatory agencies now use a common rating system for all banks. This system incorporates not only measures of capital and liquidity but also earnings, the quality of loan book and the quality of the management. On the basis of their rating, banks are put into one of five categories ranging from sound in almost all respects to being in need of constant attention. If after all this supervisory attention a bank's position is irredeemable, then in many countries, including the U.S., Canada, Germany, France and the U.K., the unlucky depositors are likely to receive some compensation through a deposit insurance scheme.

The diversity of practice in different countries causes problems when it comes to the supervision of international banking. International co-operation has over the last few years gone a long way towards

ensuring that no international offshoot of a bank at least in a major country, escapes the supervisory net. The trend now is for more home country control, so that the supervisory authority of the parent bank assumes more responsibility for its activities worldwide. This involves putting controls on the consolidated balance sheet of international banking groups. This policy, already used by the Dutch, is now being adopted by the Swiss and will soon also be put into practice by the Bank of England.

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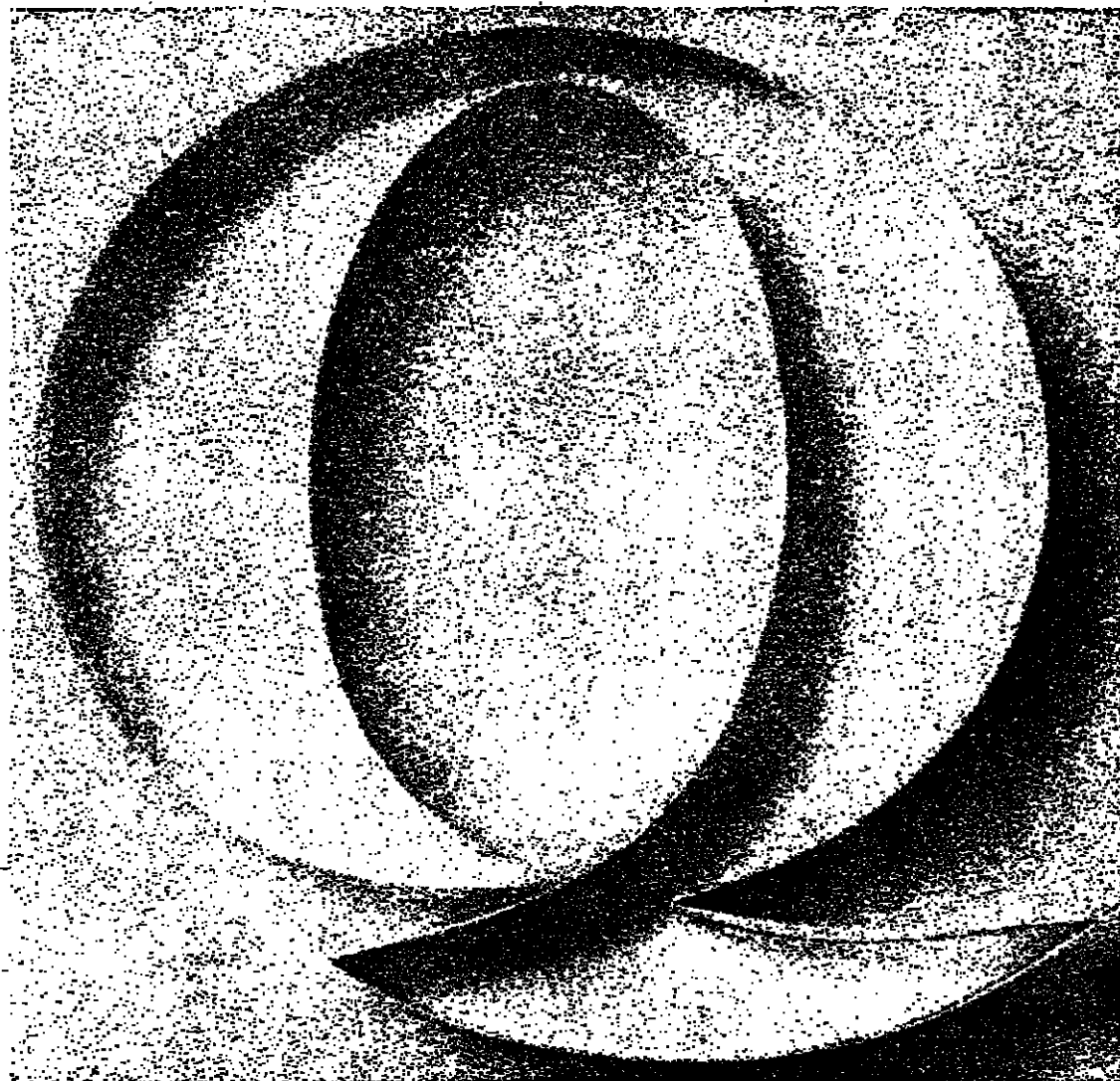
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Need to preserve a balance

WHEN THE Bank for International Settlements (BIS) published its otherwise fairly bland communiqué on the Euromarket in April, it drew attention to the increasing dangers inherent in international banking. Even if the bank's governors do not yet appear to have reached fundamental agreement on the question of controlling the market they are thus in little doubt about the risks in a market whose size now exceeds \$1,000bn.

It is from the awareness of these risks that the arguments in favour of controlling the Euromarket have evolved. The market is relatively unregulated and in the minds of central banks and national banking authorities not enough is known about how it functions.

A particular worry is whether the market is safe for the banks operating in it. Risks can arise in a number of ways. One is through mismatching of assets and liabilities. Sudden sharp increases in short-term interest rates can result in serious difficulties for banks by driving up the cost of funds used to back longer term loans whose rates are locked in at lower levels for a period of time.

Another point of concern is "country risk". With the very wide payments imbalances that have emerged as oil prices rose over the past decade, some countries have built up a very large amount of external debt. In a number of cases there is a real danger of their being unable to meet the service in charge on this debt. In others the danger lies in political instability in the borrowing country. The problem for banks is in avoiding excessive concentration of their assets in such countries, so that if default does occur it will not cause loan losses on a scale that would undermine their viability.

The "country risk" question is, however, also connected to the liabilities side of the balance sheet. Events surrounding the freeze of Iranian assets in U.S. banks show how careful banks have to be to avoid relying too heavily on large individual sources of funds.

A third point of concern relates to the question of capital adequacy. The bank regulators want to feel sure that banks have enough capital backing to support lending activity that has been growing apace in recent years. Without adequate capital resources banks could meet severe difficulties if they had to cope with large loan losses or in the event of a squeeze on their liquidity. These concerns were all recognised one way and another in the BIS communiqué. The governors said they had decided to monitor activity in the Euromarket yet more closely than before. A BIS standing committee on the Euromarket has been set up to report twice a year on the state of the market to the governors, or more frequently if circumstances warrant. This closer surveillance is a crucial step towards ensuring sound banking practices. It could, in the words of the bank "provide a

framework for intensifying, if appropriate, co-operation on monetary policies between the countries concerned."

At the same time the governors drew attention to the responsibility of domestic authorities for ensuring the soundness of the banking system, particularly with regard to capital adequacy, liquidity and the concentration of risks. To this end they urged a quick implementation of recommendations already made by the BIS Committee on Banking Regulations and Supervisory Practices, the so-called Cooke Committee. These recommendations call for supervision of banks' international business on a consolidated basis, improved assessment of country risk exposure, and the development of more comprehensive and consistent data for ensuring that banks do not get caught short funding too much long-term lending with short-term deposits.

Broadly speaking, then, the BIS statement make a two-pronged attack on the problem. On the one hand it calls for improved information compiled through international bodies such as itself; on the other, it urges a more activist attitude on the part of domestic banking authorities. What it avoids is any proposal for some sort of global controls such as reserve requirements on Euromarket business designed to curb the growth in the overall size of the market.

The reserve requirement idea was first put to the central banking community a year ago by Mr. G. William Miller, the then chairman of the Federal Reserve Board. It is still supported by the U.S. whose con-

cern about the Euromarket goes beyond the aim of charting a safe course for international banks to the controversial issue of whether the very existence of the market undermines national attempts to control inflation by restricting money supply growth.

Part of the controversy surrounding this argument rests with the belief by opponents of it that Eurodeposits are not transaction balances but investment funds. For the money to be spent it must be returned to the domestic banking system. It is control of the money supply within this system that is thus crucial to the fight against inflation. But the question remains as to whether market practice

now means that Eurodeposits should in fact be treated as transaction balances. The question also arises as to whether the transfer of funds from domestic markets to the Euromarket increases the velocity of circulation of the national money supply. It is quite likely that this is the case, and the result is that inflationary pressures can increase beyond the point suggested by money growth in volume terms.

Problems such as these were behind U.S. pressure for global controls on the Euromarket, but the suggestion met with little enthusiasm in Europe. Britain and Switzerland particularly saw global controls as undesirable, first because they would tend to undermine the importance of their countries as international banking centres and second because global controls could not reach round every corner of the globe. The Euromarket could simply be relocated somewhere where supervision was even harder than before. Meanwhile the need for banks to recycle large OPEC payments surplus caused many to back away from the notion of "???" with the market.

The BIS communiqué dealt with the whole issue only in its final paragraph, which stated that divergences between national banking systems and

EUROMARKETS CONTROL

PETER MONTAGNON

Leeway

Proponents of this argument suggest that a shift of deposits from a domestic banking system to the corresponding Euromarket — usually results in a net increase in worldwide bank liabilities. This happens because the reserves held against domestic bank liabilities are not reduced by the transaction and there are no reserve requirements on Eurodollars. Thus the transfer creates a leeway for domestic liabilities to be expanded without any additional reserve requirements.

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put into a privileged position. Even in the UK, a great many banks take advantage of exemptions in the Companies Acts, and they do not pretend that their accounts give a true and fair view of the kind that is required for the great majority of companies. The attempt by the U.S. Federal Reserve Board to improve and standardise levels of disclosure for foreign banks operating in the U.S. has raised signals of protest from all over the world.

However, the rapid internationalisation of banking is bound to put increasing pressure on the cosy arrangements that banks enjoy in most of their home countries. Foreigners are less willing to take it for granted that some far distant central bank is looking after their interests; nor are they likely to comprehend the finer points of local convention.

Prominently

Published figures, especially balance sheet ratios, are counting for more and more. It is noticeable that the large British merchant banks are finding it desirable to take capital out of their inner reserves and place it more prominently in the balance sheet shop window. This has recently been done, for instance, by two of them—Kleinwort Benson and Baring Brothers.

Banks will give up their privileges only with the greatest of reluctance, however. The scale of the resistance emerges clearly from the submissions received by the Federal Reserve in response to its proposals to require foreign banks to make extensive disclosures on an annual report form (Form FR Y-7).

As a sample, Credit Suisse pointed out: "A Swiss bank may be unable to obtain financial information, or information as to kinds of business activities conducted, even from a subsidiary that it is considered to control. Secrecy can scarcely be taken much further than that. But other countries have serious misgivings too. The British Bankers' Association has told the Fed that British banks wish to avoid the possibility that various countries will start requesting individual information from foreign banks. "The consequent dissemination of highly sensitive and confidential information and the practical difficulties which would be imposed on international banking groups would be a most unwelcome and burdensome development."

Clearly the appropriate way out of this problem would be the development of commonly agreed standards of disclosure and accounting policy, and auditing for internationally trading banks. If such standards of reporting were to become widely accepted it would be difficult for banks which refused to follow the rules to operate internationally, whatever the privileges that they were granted under their own national laws.

The first tentative steps towards the development of such agreed standards have been taken by the International Accounting Standards Committee with the publication in March this year of a discussion

the Euromarket did tend to foster the growth of the latter. It said it was desirable for these divergences to be reduced, although it would still be necessary to take into account the structure and traditions of national banking systems.

This last sentence points to the basic philosophy that is now emerging from the debate on Euromarket controls.

Supervision of banks is to be increased — and here there is now a well-established principle that authorities in one country do have ultimate responsibility for the foreign subsidiaries and branches of that country's banks. Banks will have to produce consolidated balance sheets to which capital ratio requirements will be applied. They will be expected to adhere to stricter rules on the maintenance of liquidity — the concentration of their risks will be monitored more closely.

Over and above this, there will be closer international co-ordination, but the responsibilities will lie mainly with national authorities — which means that individual measures taken may not necessarily be harmonised internationally and may reflect particular pre-occupations of different countries.

The end-result should be that the Euromarket becomes a safer medium through which to channel business. But the regulators are walking a tightrope. If they are not strict enough, the danger remains that confidence could be undermined by some spectacular banking collapse; if they are too strict, the banks will not be able to recycle the very large surpluses now being built up by OPEC countries. At all costs the balance must be maintained.

Reluctance to reveal all

FINANCIAL INFORMATION

BARRY RILEY

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In practice only some of the large American banking groups come anywhere near the suggested levels of disclosure. For example, Bank America Corporation breaks down foreign borrowers into eight country categories, from industrialised countries at one extreme to low income developing nations at the other.

The high level of disclosure of loans loss provisions in the U.S. together with charges and recoveries, has now spread to the UK clearing banks, albeit with the quirk that in the UK provisions are divided into specific and general categories.

Random

In contrast, to take as a fairly random example, the Hongkong and Shanghai Banking Corporation—which had such difficulty in getting U.S. regulatory approval for its takeover of the U.S. bank Marine Midland, largely because of lack of disclosure—secretly, minor reserves are much in evidence.

Its auditors, Price Waterhouse and Peat Marwick Mitchell, state that the accounts comply with the provisions of the Hong Kong Companies Ordinance applicable to banking companies. Oddly, they do on to say that the accounts give a true and fair view "on this basis."

The largest British bank, Barclays, is an intermediate case. Disclosure levels are gradually improving—the latest annual report gives a geographical breakdown of deposits—but there is still no analysis of the term structure of £26.3bn of deposits, and only minimal detail about the lending pattern.

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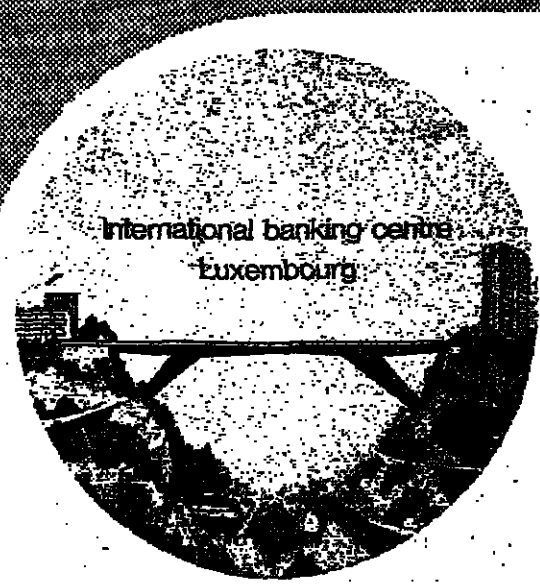
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DM 2.067 Mio	Due from banks	DM 1.726 Mio
DM 214 Mio	Bonds	DM 353 Mio
DM 3.264 Mio	Deposits	DM 3.098 Mio
DM 127 Mio	Capital Funds	DM 108 Mio
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Switch from grants to loans

THE AMERICAN banker in Hong Kong laid down his coffee cup and leant forward to emphasise his point. He was describing his dealings with the management of a Chinese enterprise, one of those recently permitted to negotiate direct with foreigners. "Do you know," he said in tones of incredulity, "the guy thought I was going to give him the money to cover his foreign exchange share of the deal?"

This misunderstanding is far from unlikely. For the past year the Chinese Press has discussed with more and more frankness the problems of the economy, and one that comes up most often is the long-established system under which Chinese enterprises receive non-repayable State grants as investment capital.

The very idea of repaying loans or of paying interest had until recently fallen into total disuse. The result has been, as Peking now freely admits, enormous waste, and inefficiency. Even where, in the past, enterprises have been given bank loans (the People's Bank, China's central bank, had been allowed to top up grants with loans), they have been applied to all sorts of unorthodox purposes.

The grants system was instilled in the 1950s. At that

time China had a reasonably efficient banking organisation, and the planning system was relatively easy to administer as the economy was small. However, the abandonment of so-called "bourgeois rules and regulations" in the long Cultural Revolution period and the expansion of industry over the years meant that strict control simply collapsed. China is now painfully trying to replace grants with loans so as to make officials more responsible in their use of funds.

The People's Bank of China has 36,000 branches and was until recently the only channel of monetary flow. However, its funds, which come from deposits (both corporate and individual) are insufficient to provide loans to replace State grants.

Reconstituted

Hence in early 1979 the Agricultural Bank and the Construction Bank, which had been closed during the Cultural Revolution, were reconstituted to direct loans into farming and industry. To the Construction Bank (which is financed by direct budgetary allocation) was given the task of experimenting with a loans-only system.

Last November trial regulations were published for pilot loan schemes in the light,

CHINA

COLINA MacDOUGALL

textile and tourist industries in selected projects in Peking, Shanghai and Guangdong province. The criteria for projects eligible for loans are practical (e.g., the products must be marketable and adequate infrastructure must exist) but of course much will depend on how they are applied.

To strengthen the new Construction Bank, the State Council (Cabinet) has put it directly under its own aegis, reporting to the Ministry of Finance. In April this year, the Chinese claimed "remarkable results" for the new system, but for real evidence of this more time is needed.

In theory the Chinese banks regulate the economy tightly. The People's Bank plays a part in forming the State plan and the budget, helping to decide the level of money supply to balance the expected level of output.

In practice, however, this system no longer works. Con-

trary to the "readjustment" policy (in effect, retrenchment) which Peking embarked on last year, local investment has been continuing almost unabated and personal spending was at a much higher level than before. Neither China's planners nor the bankers were farsighted enough last summer, when workers and peasants were accorded higher incomes, to calculate accurately the inflationary effects. Foreigners in Peking estimate the current inflation rate at 5-10 per cent.

Chinese officials also overlooked the inflationary effect of the misappropriation of funds and of overdue loans. Now aware of the problem, the People's Bank has announced that from April 1 this year it will increase the normal 4.2 per cent interest on loans by 20 per cent for overdue loans, 30 per cent for loans tied up in overstocking and 50 per cent for repayment delays incurred by oversteering.

It remains to be seen whether bank branches can actually

enforce this; a recent People's Daily article made it clear that most accounting in local government and factories is so poor—or so dishonest—that funds to finance a pet scheme can always be found somewhere.

In recent months dawning realisation of the problems has spurred the Chinese to take other action. Li Baohua, President of the People's Bank and a member of the State Council, in last November's Red Flag harangued the country's bankers on their duties and incidentally pointed out much that was wrong. The banks were clearly still giving too much support to heavy industry instead of boosting agriculture, light industry which would provide more consumer goods to sop up spending power.

The People's Bank was also attracting insufficient savings. In the first eight months of 1979, urban accounts, according to official figures, at Yuan 19.3bn were 27.5 per cent up on the same period of 1978, while the equivalent rural figure was Yuan 3.2 bn, a 32.6 per cent increase. But this was clearly not enough to siphon off the spare money in people's pockets, as a thriving black market in the last six months or so suggests. In an attempt to remedy the situation, the Bank has for the second year running raised its interest rates, both for depositors inside China and for Overseas Chinese.

The People's Bank, Li insisted, should be much stricter in its regulation of currency in circulation. Unauthorised capital expenditure all over China has produced a situation in which, as he put it, "Capital construction pushes financial departments, financial departments push the bank and the bank issues bank notes." This conjures up an alarming picture of the People's Bank printing money on demand.

Perhaps the most biting reform in the People's Bank is that each branch is gradually to be made accountable for its own profit and loss. Hitherto local branches simply passed on their credits and debits to head office and did not bother to recall loans that fell due or to raise further funds by encouraging deposits.

The Bank of China, Peking's foreign trade bank, is a much more professional organisation than its internal counterparts. In line with China's growing foreign trade, it has been expanding its overseas activities. In recognition of its importance the leadership raised its status

last year, separating it from the People's Bank, of which it was previously a part, and putting it, like the Construction Bank, directly under the State Council. At the same time a new body, the General Administration of Exchange Control, was set up to co-ordinate all China's foreign transactions.

For the first time the Bank of China last year took part as lead manager in syndicated loans in London and Hong Kong—as well as a Midland Bank floating rate note issue on December 3. It opened a new branch in Luxembourg and was planning two others in Tokyo and New York, plus a representative office in Paris. Its overseas borrowing—the first since the establishment of the Communist Government in 1949—which went ahead vigorously in the first half of last year, appears to be temporarily complete. It has now put together some \$26bn of Government credit arrangements and commercial loans (see accompanying tables).

Extended

China has drawn on little of this, however. The British \$12bn so-called "deposit facility" has been partially used retrospectively to finance earlier deals and the limits have been lowered to enable it to be used for much smaller contracts. China's first syndicated borrowing, from UBAF (Union de Banques Arabes et Françaises) was reduced from the \$500m agreed last year to \$300m, and the maturity extended from 3½ years to five.

This appears to indicate Chinese concern about their ability to repay, and indeed there are signs that Peking is turning towards softer loans. In December 1979 the Japanese agreed to help finance six development schemes (for ports, railways and hydro-power) reportedly with a long-term loan expected finally to reach about \$1.5bn, at 3 per cent over 20 years. Peking also accepted a \$4.8bn development loan, interest-free, with no repayment for the first 10 years, from Belgium.

In mid-April this year the International Monetary Fund voted to admit Peking in Taiwan's place. In mid-May the Chinese joined the World Bank, whose development programmes are believed to interest them. Generous U.S. Eximbank financing also seems to be on the cards, following the approval by Congress early this year of the Sino-U.S. trade agreement.

WORLD EXTENSION OF CREDIT TO CHINA

Exim Bank Credits and Government-Guaranteed Loans

Country	Date	Amount (\$m)
UK	12/78	1,200
Australia	4/79	55
France	5/79	7,148*
Italy	5/79	1,000
Japan	5/79	3,625†
Sweden	5/79	350*
Canada	8/79	1,720*
West Germany	10/79	1,100*
Belgium	11/79	175*
Sub-total		16,354

Commercial Bank Buyers' Credits to China

Country	Date	Amount (\$m)
UK	3/79-4/79	675
France	4/79	500
Canada	4/79	100
Luxembourg	4/79	50
Chile	4/79	10
U.S.	6/79-10/79	25
Japan	8/79	3,094.5
West Germany	10/79	450
Sub-total		9,817.5
TOTAL		26,171.5

Source: China Business Review.

Note: The above Exim Bank credits carry an interest rate of 7.25 per cent per year for loans under five years, and 7.5 per cent for credit of five years or more. The only credit not to conform with these OECD guidelines is Japan's \$1,900m loan to China in May, which carried an interest rate of 6.25-6.5 per cent. Interest rates on the above commercial bank loans vary according to the length of maturity; however, the interest rate on the loans of 1-5 years duration is 0.5 per cent per year above LIBOR, the London Interbank Offer Rate. LIBOR stood at 14.25 per cent per annum for six-month Eurocurrency credit as of February 1, 1980.

* Loans are denominated in local currency, hence their dollar values may change over time.
† Includes a 10-year Exim Bank credit for ¥420bn (\$1,900m), and a 30-year Overseas Economic Cooperation Fund credit for ¥500bn (\$2,250m) in fiscal 1979, and an additional \$1.5bn to be disbursed during fiscal years 1980-86.

WORLD EXTENSION OF CREDIT BY THE BANK OF CHINA

LOAN RECIPIENT	Date	Amount and terms (\$m)
SYNDICATION LEADERS		
BEAM SHIPPING COMPANY (Philippines)	12/79*	\$145
Bank of China		10 years, 3½-year grace period; LIBOR + 0.875
Paribas Asia		
AFRICAN DEVELOPMENT BANK	10/79	\$150
Chase Manhattan (London)		12 years; LIBOR + 0.625 for 4 years; LIBOR + 0.750 for last 8 years
SUN HUNG KAI (Hong Kong)	10/79	\$42
Banque de Paris et des Pays Bas (French)		Terms NA; to build Hong Kong office complex
CHINA CEMENT COMPANY (Hong Kong)	1/80	\$123
Bank of China		10 years; 4-year grace period
Chase Manhattan Asia Hongkong and Shanghai Banking Corporation		
TOTAL		\$460

Source: China Business Review.
* Date of loan announcement, but syndication has reportedly not been organised as yet.

The Middle East

CONTINUED FROM PAGE XXXII

fact that the number of banks operating has been limited. They number 13, with 20 branches in all, serving a population of about 250,000 of 20-25 per cent the size of the UAE's. At the end of 1979 total deposits spread amongst them totalled 3,390m Qatari riyals (\$923m) only a marginal increase on the year before. Advances, meanwhile, rose 16 per cent over the 12-month period and accounted for 96 per cent of total deposits.

Thus, the profit motive has defied official policies and attitudes, resulting in unaccustomed tension between the banks and the QMA. The latter's development has in past years been constrained by the status of the Qatar National Bank, whose ownership rests largely with the Ruling Family. Thanks to a virtual monopoly of Government business the QNB controls about half the total deposits—a factor that has com-

promised the difficulties felt by the rest of the system this year. Other banks regard its lending policies as conservative. Before the QMA asserted itself the old inter-bank agreement had been overtaken by market developments abroad and become meaningless out of line. Asserting its authority for the first time lifted rates that could no longer be observed anyway, to 4.5 per cent for savings deposits and 5.7 per cent for time deposits. The upper limit of 9 per cent for advances has made for easy arbitrage killings. The result has been a large and continuing outflow of money.

Bahrain, too, has felt the drain of liquidity resulting from low regulated interest rates and fixed exchange rates. In 1979 advances were up some 8 per cent to 403.95 Bahraini dinars (\$1,070m) over the year but were barely, only 98 per cent

covered by deposits which declined slightly. This compared with a ratio of 84 per cent at the end of 1978. The net outflow of Bahraini dinars was calculated at BD 42m with the result that the net foreign asset position of the State was wiped out to almost zero.

Despite the instability in the region reflected by a fall in assets at the time of the fall of the Shah, again last November after the attack on the Grand Mosque, Mecca, and most recently in February, applications to operate off-shore banking units have continued and a number have been granted so that more than 55 banks are now operating. Total assets grew last year by nearly 19 per cent to \$27.8bn and reached \$29.1bn at the end of March. No one now questions the success of the venture but as Mr. Alan Moore, the adviser to the Bahrain Monetary Authority

who was largely responsible for it, said recently the market is a "fragile" one.

Original hopes that the official surplus funds from neighbouring oil producers might pass through the system have been disappointed. The venture proved the need for an international financial centre between London and Singapore has been abundantly proved and in the process Bahrain established its claim to pre-eminence in the Gulf over other rivals, particularly Dubai. The OEBUs have also carved out a special role as an inter-bank market in the currencies of the Gulf states, particularly the Saudi riyal. It is one that SAMA and the Central Bank of Kuwait have resented and tried to limit to the point of moving currencies against market trends with the result that the OEBUs sustained substantial losses earlier this year.



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The National Bank of Kuwait SAK
P.O. Box 95, Telex: National Kwt 2043, Telephone: 422011 (Head Office)

The fight for cheaper air fares

IF A businessman wants to fly from London to Rome, it will cost him £138.50 economy-class single, for a distance of 1,070 miles. If he wants to fly a comparable distance in the U.S., say between New York and Kansas City, it will cost him just under half, or about \$67. This parallel, taken at random, can be multiplied many times for other "city pairs"—the accompanying chart lists just a few.

They are a sore point with many European air travellers, and they have added bite to the campaign launched last week with the support of cheap-fares champion Sir Freddie Laker, and Lord Bethell, a member of the European Parliament, to try to force the European Economic Commission into cutting short-haul air fares on this side of the Atlantic.

This time, the pressure is aimed at encouraging individuals to file their complaints against high fares directly with the Commission in Brussels, arguing that such fares violate Articles 85 of the Treaty of Rome. This prohibits illegal price-fixing and market-sharing arrangements, which Sir Freddie and Lord Bethell believe to include air fares.

They are taking this line largely because so far other actions—including bids for cheap-fare licences by Laker Airways and other UK independents, and by such Continental-based independents as Sterling of Denmark—have not yet achieved the success that had been hoped.

But the volume of complaints is mounting. The Transport Committee of the European Parliament is now studying European air fares, and will report later this year on the need for cheaper rates, with suggestions as to how they can be achieved. The EEC itself circulated a memorandum last summer arguing for cheaper and simpler

fares, which it thought could be achieved by "evolutionary" rather than "revolutionary" means. It suggested the introduction of third-class tickets, stand-by rates, and special "no frills" tickets, among other measures.

The UK Civil Aviation Authority, although ostensibly in favour of cheaper fares, recently rejected bids by several UK airlines—Air UK, Britannia, British Caledonian and Laker—for a big increase in the number of cheap fare routes to the Continent, suggesting instead that the Department of Trade should start a "dialogue" with European countries in a

European airlines can now point to the heavy losses being incurred in the U.S.

bid to stimulate the latter's currently lukewarm interest in cheaper fares.

Mr. John Nott, Secretary for Trade, has already said that the present level of European fares is too high, and that "nothing" could be more important than enabling European citizens to travel between European cities at prices they can afford. But the French Government still blocked British Airways' recent bid for a cheap £20 Channel-hopper fare.

At a time when most of the foreign airlines on the Continent have been arguing that the present climate of soaring costs is not ripe for cuts in fares, the UK airlines, and especially the independents headed by Laker, have been counter-arguing that by running tight ships with fuel surcharges (including smaller staffs), and no frills, they can offer much lower fares, and by generating traffic, make money. All they have been ask-

ing for is the right to try to prove their point.

The starting point for the argument in favour of cheaper fares over recent years has been the comparison with rates in the U.S., which tend to be much lower for comparable distances. This discrepancy has been frequently used as a stick with which to beat the European airlines, but the latter can now point to the heavy losses being incurred in the U.S. In the first quarter, seven of that country's 10 leading airlines failed to pay dividends on common stock, the biggest losers being United, more than \$40m; Pan Am, \$75m; American, \$42m; and Trans World, \$40m.

This, it is being argued in Europe, indicates that air fares in the U.S. have been much too low, that the U.S. Government, while espousing deregulation and encouraging competition, has failed to allow the airlines to recover their soaring fuel bills quickly enough through higher fares, and that the more cautious European approach has been the correct one all along.

While some part of the difference in U.S. and European fares undoubtedly lies in the lower level of overall efficiency of some European operators, especially on short-haul routes, there are many other reasons for it. These are divided broadly into external factors (that is, outside the airlines' control), and internal (within their control, provided they feel motivated to do something about it, which is by no means a universal attitude).

Among external factors, two play a big part. Fuel in the U.S. is much cheaper, averaging about 80 cents a gallon in the first quarter of this year against 100-115 cents in Europe. Secondly, in the U.S. en route navigation facilities are not federally funded, and not charged to the airlines, whereas

in Europe they are a heavy impost, passed on to the passengers.

Other external influences on West European fares include air traffic control problems. The many different European national air traffic control services, with large areas set aside for military flying, result in complex and often (in the airlines' view) poorly co-ordinated air traffic control patterns, requiring much more flying for a given distance than in the U.S., thereby putting up costs.

The average short-haul distance flown between "city pairs" in the U.S. is about 930 miles, whereas in Europe it is about 540. Thus European aircraft tend to get less utilisation than their U.S. counterparts.

Moreover, night curfews at European airports are more widespread than in the U.S. Heathrow, for example, is virtually shut for jet movements throughout the night, almost one-third of its potential working life. If it could be used at night, the traffic could be spread more widely through the day, the new £150m fourth terminal (on which work is about to start) might not be necessary, and landing fees might be cheaper.

Finally, there are strong tendencies in Western Europe towards protectionism, with nearly 20 governments involved. In the U.S. there is one government policy for all airlines, and that is being gradually liberalised as a result of deregulation. In Europe the tendency is to become more restrictive, especially as times get tougher financially for the airlines.

Thus, when the UK airlines want to introduce cheaper fares—as they often do—they find themselves blocked by foreign governments which are anxious to protect their own flag airlines. It is not much less interested in reducing fares.

The internal factors—those within the airlines' control—are more debatable, because they

reflect directly on the airlines' efficiency. Airline staff levels tend to be higher in Western Europe. A much higher proportion of European flights is international, involving many different exchange rates, so that ticket issue is more complex, involving longer studies of fares manuals, and thus more time spent on each ticket, and a higher ratio of sales staff to passengers than in the U.S.

Several measures in Western Europe would probably go a long way towards solving these problems—a simplification of the fares structure, increased computerisation of both fares calculations and ticket issue; a higher volume of staff training; and probably also greater staff motivation. The fact that every European airline is lacking in one or more of these areas must help to keep costs, and hence fares, higher on this side of the Atlantic.

There is also little doubt that many airlines in Western Europe have been slower to react to consumer pressures for cheaper fares. One reason for this is that, in the past, much of the immediate demand for cut rates has been met by cheap holiday inclusive tour package fares (which, to be fair, have often been cheaper than rates for equivalent distances in the U.S.). It is only in comparatively recent years that this demand has spilled over into the scheduled airline sector.

This again tends to account for the fact that many of the so-called "cheap rates" offered so far have been in effect little more than "fill up" fares, designed to reduce the number of otherwise empty seats at odd times of the day or week on scheduled flights. Widely-trumpeted "drastic cuts" in European short-haul fares have upon analysis proved to be of this nature. Passengers do use them, but they have not generated the big increases in

NEW YORK	
TO BOSTON	£75-48 (10 Pence per mile beyond)
WASHINGTON	£20-70 (10)
DETROIT	£39-78 (3)
CHICAGO	£52-36 (7)
MIAMI	£66-17 (6)
KANSAS CITY	£66-98 (6)
LONDON	
TO PARIS	£42-50 (17 Pence per mile beyond)
BRUSSELS	£56-50 (22)
FRANKFURT	£75-00 (10)
GENEVA	£91-00 (17)
ROME	£138-50 (10)
ATHENS	£203-50 (15)

These are the rates for businessmen on a short-notice economy-class single journey. On some routes, special cheaper rates may be available, but with restrictions, such as on time of travel and length of stay.

traffic that the airlines hoped for.

Apart from the UK independents' abortive bids, it is only this spring that there has been any fresh attack on short-haul scheduled air fares in Western Europe. This has come from British Airways and Air France, with their joint experimental abolition of first-class rates on the London-Paris route, and the substitution of the new Club Class and Economy Class rates, in a bid to simplify the fares structure as the best way of getting rates down. If it works (and so far the aircraft have been full), BA in particular wants to spread the system through its network.

But even the BA/Air France experiment does not approach the revolutionary concepts put forward by Laker for Skytrain-type cheap-fare services throughout Europe, or the Britannia Airways plan to sell up to 50 per cent of the seats on its holiday flights to scheduled passengers at cut rates.

Many of the short-haul routes sought by Laker were directly between cities on the Continent, so that they were outside the CAA's legal authority to grant.

But Laker's point was that unless someone tried to force the issue, and so get cheaper fares in Europe, no-one would be likely to do anything drastic at all. Similarly, Britannia's bid for scheduled tickets on holiday flights, and British Caledonian's bid for "Mini-prix" rates on many new Continental routes from Gatwick, were both attempts to broaden the whole base of cheap-fare flying in Western Europe.

But these bids seemed to frighten the CAA at what the strongly protectionist European Governments would do, and so it rejected virtually all the bids, giving BA only six routes out of 20 it asked for, and suggested instead that the Department of Trade start its "dialogue" with these governments. The independents believe that, had the CAA grasped the nettle and allowed their bids, there would have been a firmer basis for such a dialogue as a matter of urgency.

As it is, no-one is any further forward—such "dialogues" have been tried before, without much success, for example with Scandinavia. Apart from the Air France share of the London-Paris experiment, there have

thus been no major Continental-generated initiatives towards cheaper scheduled fares, and it seems unlikely that in any such dialogue with the Continent the UK Government will get what it wants except without a major struggle, lasting a long time.

This is why Laker wants to go further, faster. Sir Freddie is planning to take his own case to the European Court if he gets nowhere with Mr. Nott and the British courts. He strongly believes that Article 85 of the Treaty of Rome effectively bans all price-fixing, especially by the scheduled airlines in the International Air Transport Association, and that legally his bid for cheap-fare short-haul routes cannot be blocked.

But setting the other governments of the Nine to agree is another matter. Every flag airline on the Continent is a cherished instrument of national policy and prestige, and the case for protectionism—and keeping fares high—is being strengthened by today's increasingly tougher economic climate, with soaring costs, especially of fuel, bolstering the case against cheaper fares.

Public sector pay

From Dr. J. Collings.

Sir—The proposals for allowing market forces to operate in the determination of public-sector pay put forward by Samuel Brittan (May 22) have considerable merit. The simple economic logic of which they are based, however, breaks down in precisely those areas in which the need for an alternative to pay comparability is greatest.

For staff who have a high degree of mobility between the public and private sectors (e.g. secretaries, economists, HGV drivers), it may be entirely appropriate to set public-sector pay at a level just sufficient to keep posts adequately staffed. In principle, however, this process should produce results which only differ from those of comparability studies in so far as the latter make incorrect adjustments for differences in conditions of service such as pensions and job security.

Pay comparability is far less obviously appropriate in the many areas of the public sector which depend on skills for which there is little or no private-sector demand. Thus, excellent teachers or senior civil servants might find that the skills they have acquired are of no interest to the private sector. In these areas of the public sector, pay comparability depends on the doubtful proposition that it is possible to determine a "fair" position for each grade relative to the private-sector pay league table. Unfortunately, the lack of mobility of experienced staff between public and private sectors also undermines Mr. Brittan's simple competitive model by introducing an element of monopoly power in the public sector's position as an employer. Applying the market-clearing principle on a grade-by-grade basis under these conditions might result in senior staff being paid less than junior staff because of poorer employment opportunities in the private sector.

In defence of the market-clearing principle, it could be argued that the ability to fill vacancies in recruitment grades provides an indicator of whether the expected rewards over the whole career are comparable in the public and private sectors. Ability to recruit, however, does not indicate whether pay differentials within the career structure are correct. Thus if a system is to be operated of setting pay in the public sector so as to just fill recruitment grades, a decision has to be taken somehow on what the correct differentials should be. One possibility would be to use some form of comparison with differentials in the private sector.

Dr. John Collings, The University of Aston, Management Centre, 158, Corporation Street, Birmingham.

Staffing levels

From Mr. J. Pezzey.

Sir—Samuel Brittan (May 22) is right to ask for more attention to be paid to the laws of supply and demand when determining public sector pay, but he is wrong to have begged a question of equal importance, namely: how should one deter-

mine the correct demand for public servants?

I should like him to answer that question with particular reference to mathematics teachers and to my own mini-profession of energy conservation research scientists. In the former the desired staffing level is determined by many years of precedent, and the achieved level is well below that because wages are too low. In contrast, the staff "requirement" for energy conservation researchers is determined by senior government scientists but the present 30 per cent shortfall in our particular area has been caused not primarily by low wages (though with the likelihood of a pay rise this year far below the well-publicised recent rises for administrative civil servants, I'm not complaining of being overpaid), but by the imposition by even more senior government policy-makers of an almost total ban on recruitment for the past four years.

Perhaps the connection between the understaffing in the two professions is that both produce "public investment goods"—a numerate populace and rational guidance for energy conservation policy—and so expenditure on these goods can be reduced for short-term political reasons without full regard to the long-term impact on the economy. John C. V. Pezzey, 21 Ashby Road, Watford, Herts.

The whipping boys

From Mr. L. Brookes.

Sir—It is a pity the Prime Minister does not realise that public sector bashing is no more attractive a stance for a Government than union bashing or Mr. Healey's squeezing of the middle class until the pips squeak. Her attitude is all the more to be regretted for being based on false facts for a large part of the public sector. Public sector pay cannot "lead the way into inflation" if it is based on following the pay of other workers well after they have had their increases.

There is only one reason why some public sector pay increases in the area covered by comparability arrangements have appeared to be larger than increases in the retail price index. It is that it was largely only in the public sector that the Labour Government's pay restraint was fully enforced. If it had been enforced throughout the economy there would have been nothing to come under comparability when it was partially reintroduced.

I use the words "appeared" and "partially" because of the practice of staging pay increases—which means that increases agreed to be merited on, for example, April 1, 1979 are not fully honoured until April 1, 1980. The height of absurdity was achieved on the latest increase when the first instalment of the increase estimated to be due from April 1, 1980 was zero—nothing was paid until May 7.

The civil service unions have shown great restraint in accepting these arrangements. They represent substantial departures from the pay agreement based on a formula introduced by a Tory Government in the 1950s. Some of us have been at the receiving end of all three of the bashing mentioned in my first

Letters to the Editor

paragraph. We went through four of the most inflationary years in our history with virtually no pay increases. In my case it meant cashing insurance policies and in other ways running down hard won savings just to pay the monthly bills. We are entitled to resent being told we are taking out more than our share when some badly overdue catching up is being partially achieved. The Prime Minister refers to "setting an example." "Sending for the usual whipping boy" would be more apt. L. G. Brookes, 16 Ipswich Road, Bournemouth.

Freight change

From the Head of Communication Services National Freight Corporation.

Sir—We were very appreciative of the space devoted to your correspondent to the National Freight Corporation's annual report and accounts (May 21), but I would be grateful if you could allow me to correct the impression given by the main headline.

The Transport Bill before Parliament provides for changes in the Corporation's structure and financing in two stages: a conversion from a loan-financed corporation to a limited company with equity shareholding—owned, at least initially, wholly by the Government; and the offering of shares to the public at a suitable time.

In the first stage, the conversion to a limited company, giving us financial flexibility, which the Corporation has said it would like to see as soon as possible after the Royal Assent. The second—which involves a question of ownership—is a matter for Government and Parliament, on which the NFC has not expressed a view. Brian Cottee, National Freight Corporation, Arcoy House, 215 Great Portland Street, W1.

Cricket in Corfu

From Mr. D. Willan.

Sir—No article on present-day cricket in Corfu (Weekend Brief, May 10) is complete without mention of the name of Major John Foster. It is he who put such a lot of hard work into getting the game going again after World War II. While in no way belittling Mr. Brocklehurst's contribution in recent years, the fact remains that without John Foster's effort there would be no cricket in Corfu today. D. P. Willan, Donnybrook, 52, The Avenue, Alverstoke, Gosport, Hants.

Bias against building

From Mr. D. Brown.

Sir—Your correspondent (May 20) questions the motive behind the construction industry tax deduction scheme, so do I. When the present legislation was introduced by the previous government it appeared that the intention was to regulate the "lump" workers in the industry, in preparation for nationalisation. The Conservatives vigorously opposed the introduction of this Act in a three-hour

debate on February 9, 1977. The result of the recent review, however, is quite disgraceful, amounting to the disfigurement of the Revenue adding nothing to the public liability with tax collection and a few small amendments to the rules.

This Act still remains the most outrageous piece of legislation imaginable. The building industry operates by courtesy of the Inland Revenue. The "714" is a work permit. To obtain one it is necessary to produce a photograph for the identity card. A further photograph to be held on file in the Inland Revenue office. To agree to "substantially use a bank account" to "promise to pay tax promptly." To declare that "I have complied with all obligations imposed on me by or under the Income Tax Acts etc." and have "paid any contribution due under Part 1 of the National Insurance Act etc." It is then necessary to parade before a tax official to see if your face fits before being issued with a "714" work permit.

This "licence" must then be produced, in person, to any client defined as a "contractor" within the Act, enabling payment to be made gross. "Without a licence" 30 per cent is deducted from the labour content. A limited company has to parade before a tax official to see if your face fits before being issued with a "714" work permit.

It is my opinion that the Inland Revenue should not dictate who shall, or shall not, operate in the construction industry. I believe that this is a political not fiscal matter, and requires an independent inquiry. David Brown, 302 Ford Green Road, Norton, Stoke-on-Trent.

Motorway in Yorkshire

From Mr. K. Roberts.

Sir—I feel that the views expressed by Mr. Watkinson (May 15) regarding a motorway link in Yorkshire cannot pass without comment.

The motorway link he is advocating between the A1 and A168 passing to the west of Leeds is the designated "blue route," which was rejected by at least one public enquiry.

A public enquiry was recently terminated by the direct intervention of the appropriate government department because the engineering difficulties are such that the cost to benefit ratio would be grossly uneconomical and to continue the enquiry would be a waste of government and private funds.

Investigations and alternative plans are currently well advanced to continue the M1 and M62 to the east of Leeds and then northwards as an improved A1. Three alternative routes are the subject of an other enquiry.

Certain groups of businessmen and hauliers in the area are not prepared to accept these decisions are organised for continual lobbying to get the "blue route" proposals re-opened.

To state that rejected route would have used mainly pasture land is true and it should be emphasised that in doing so it would have destroyed not only farms but also a truly lovely green belt area between Leeds and Bradford and violated the beautiful country of the lower Wharfedale valley. K. Roberts, 33 Southway, Horsforth, Leeds.

Today's Events

petrol purchase credit scheme. Variety Club tribute luncheon in Mr. Gene Kelly, London.

Advisory, Conciliation and Arbitration Service annual report published.

National Union of Public Employees conference continues, Eastbourne (to May 27).

Amalgamated Society of Boilermakers, Shipwrights, Blacksmiths and Structural Workers biennial conference, Scarborough.

National Association of Head Teachers conference continues.

Cheltenham (to May 27).

Glyndebourne Festival Opera Season opens (to August 11).

Overseas EEC Finance Council meets, Brussels.

Last day of Queen's visit to Australia.

Elections begin in nine stages in India (to May 30).

Nordic Countries/World Health Organisation two-day conference opens on development of national medical technologies assessment programme, Copenhagen.

M. Raymond Barre, French Prime Minister, starts two-day official visit to Norway.

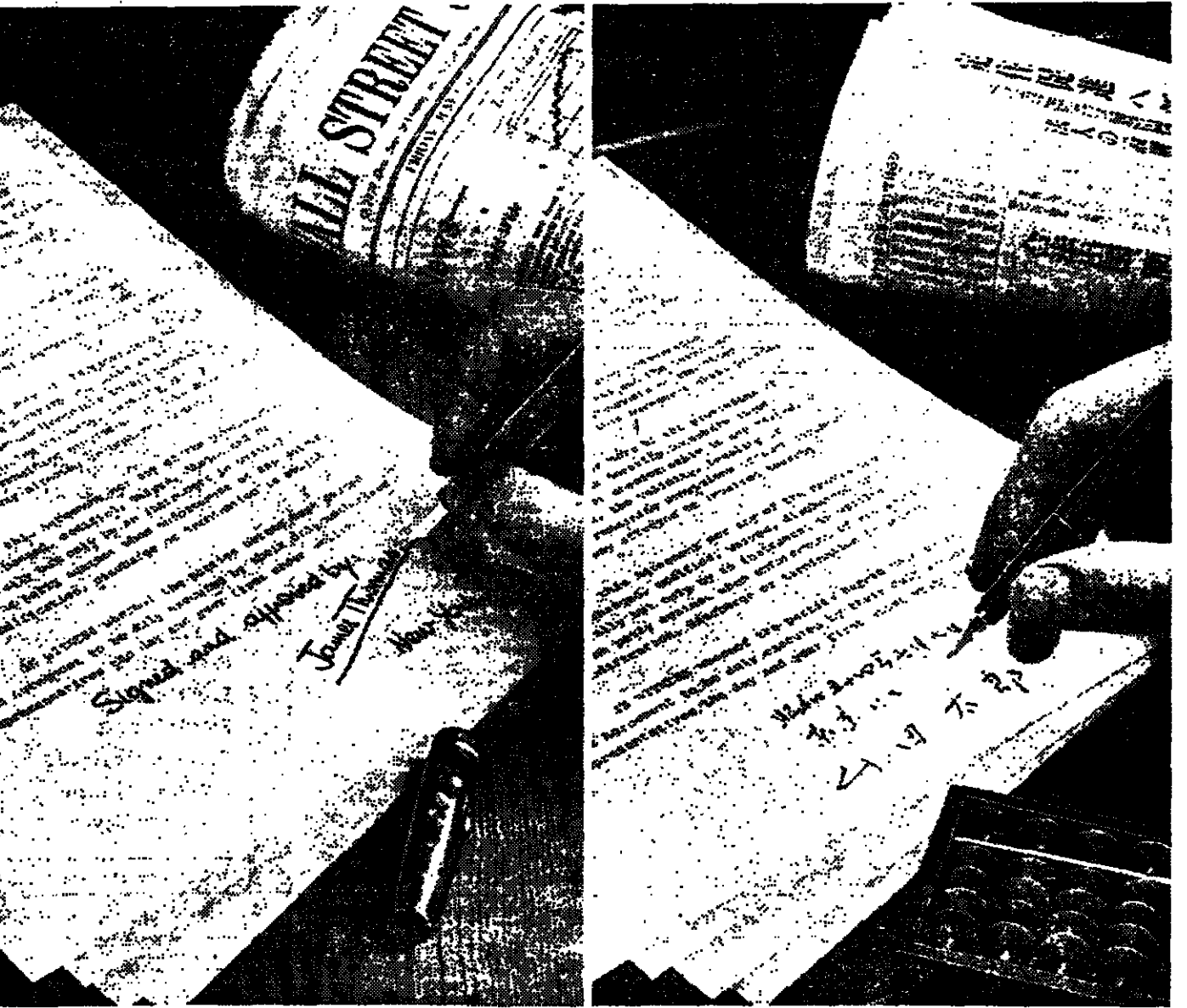
Petroleum and Marine Environment International conference and exhibition opens, Monte Carlo (to May 30).

GATT Multifibre Arrangement (MFA) three-day conference opens, Brussels.

Sir Peter Gadsden, Lord Mayor of London, visits Atlanta, Georgia, U.S.

OFFICIAL STATISTICS Preliminary estimate of gross domestic product based on output data (first quarter). Retail sales (April—monthly).

COMPANY MEETINGS See Financial Diary on page 20.



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John Laing sees rise in civil engineering sector

ALTHOUGH a further drop in the UK construction market is indicated for 1980-81, there are signs that this will not apply in civil engineering where there may be a modest volume increase, Sir Maurice Laing, chairman of John Laing, tells shareholders.

The total housing market will certainly be less than in any post-war year but the chairman is confident that this market must revive shortly.

The group will continue with its expansion policy ready for the upturn and directors intend to increase the share of this market, Sir Maurice says. Ways of expanding and improving the products and trading side are also being sought.

Overseas, further work has been obtained in Egypt, Jordan and elsewhere in the Middle East. The associate company in Nigeria is making headway as marketing has been extended particularly in the Far East.

The group is continuing its search for further opportunities, not only in building and civil engineering, but also in mechanical engineering contracts, the chairman says. Recent contracts awarded include a £10m contract for a prison near Madrid and a 25.6m contract for a Holiday Inn motel in Jeddah.

For 1979, the group reported pre-tax profits down from £14.7m to £11.57m on turnover of £521m against £483m.

Extraordinary items of £2.04m (£3.35m) include a further provision of £2m against the book value of the investment in the Altech Group. The directors say an offer from the majority shareholder to buy back the group's 40 per cent interest is the subject of arbitration proceedings.

Book value of land and buildings increased during the year by £2.78m to £25.75m.

Sir Kirby Laing, the deputy chairman and brother of the chairman is to retire from the Board on his 64th birthday in July and will be succeeded by Mr. G. F. Parsons, the present chief executive. Meeting, Hemel Hempstead, June 19 at 2.15 pm.

BOARD MEETINGS

The following companies have notified dates of Board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are interim or final and the subdivisions shown below are based mainly on last year's timetable.

TODAY
Interim: Kalsay Industries, Moran Tea, Scottish National Trust, Stag Line, Pinals, Barlows, P. Panto, William Pickles.

FUTURE DATES
Dundee & London Invest. Tst. June 19
General Stockholders Inv. Tst. May 28
Proprietors of Hay's Wharf ... May 29
Anglo American Corp. of South Africa ... June 5
De La Rue ... June 10
Hulme & Co. ... June 10
Leigh Interests ... June 10
London Sumatra Plantations ... May 29
Marlborough Property ... June 2
Standard Fireworks ... June 2

Equity Capital expansion

AFTER A quiet period, there are now signs of an increase in demand for the services of Equity Capital for Industry.

Lord Plowden, the chairman, says in his annual report. Equity finance for companies may not be readily available from traditional sources and it is these circumstances that ECI is expected to play its major role, the chairman says.

Last year was the quietest since the inception of ECI and one area of ECI's role—the financing of recovery cases—was subdued. In all, about 30 companies were considered during the year and of these 13 were declined on the grounds that there were insufficient prospects to justify an investment.

However two new investments last year by ECI were a 6.5 per cent stake in Dorada Holdings and a 4.4 per cent stake in the enlarged GEI Group.

£0.39m fall at Wilson Bros.

A FALL in pre-tax profits from £1.02m to £0.63m is reported by Wilson Bros., the greeting cards publisher, for the year to March 31 1980. Turnover rose slightly from £13.44m to £13.97m.

Expenses accounted for £142,293 (£118,534) and interest £550,655 (£312,823). Taxation took £103,305 (£236,239), leaving a net profit of £0.53m (£0.78m). Earnings per share are given as 4.61p (6.81p).

Under the terms of the offer by Fine Art Developments, shareholders will receive a second interim dividend in lieu of a final equivalent to 1.1p. Last year's total was 1.8p.

Howard and Wyndham

PRE-TAX profits of Howard and Wyndham, publisher and retail jeweller, fell from £332,000 to £105,000 in the six months to December 31, 1979, and the directors are forecasting losses for the full year. For 1978-79, there was a pre-tax loss of £226,000.

Turnover for the first half fell from £9.12m to £7.51m and profits were struck after interest of £219,000 (£272,000). Tax absorbed £98,000 (£69,000) and, after extraordinary credits of £13,000 (£142,000) debits, the attributable balance totalled £20,000 (£121,000). The loss per 20p share was 1p, compared with earnings of 3.7p.

Tricentrol U.S. placing to raise some £21m

Tricentrol, the UK-based energy and commercial group, should raise around £21m through its plan to offer shares in the U.S. and Canada.

The company has made the necessary filings for the offering of 3m American Depositary Shares (ADS), equivalent to 6m ordinary shares. Tricentrol shares closed at 348p in London on Friday. The public offering is being made through an underwriting syndicate headed by Goldman, Sachs and Wood Gundy.

Tricentrol has already won shareholder approval for the offering and is proposing to list all its shares on one or more North American exchanges, probably New York and Toronto. These steps are being taken in line with the group's strategy of expanding its North American oil and gas interests.

Viners in loss but confident

FOLLOWING the midway turnaround from profits of £46,000 to losses of £27,000, Viners, manufacturer and factor of cutlery and holloware, incurred a pre-tax deficit of £104,839 for 1979, compared with a £170,823 surplus.

Nevertheless, the directors are confident of the group's future and say first-quarter 1980 sales show a real increase of 15 per cent.

Turnover for the year improved slightly from £10.7m to £11.15m and after a tax credit of £52,193 (£79,080) charge) the loss per 10p share is shown as 0.91p (1.21p earnings). The dividend is omitted—last year's total was 1p net. There is an extraordinary credit this time of £58,681.

Directors say the results reflect a number of factors. There was a shortfall in sales by UK companies and low margins on some business obtained. Management problems arising out of computerisation brought a profit shortfall in France, and the volatile price of silver, strong sterling and high interest rates also had adverse effects.

BIDS AND DEALS

Ferguson Lacey share disposals

MR GRAHAM Ferguson Lacey is expected to announce today that he has sold his 14.6 per cent stake in Arbutnot Latham the accepting house, in which Cook Industries, a U.S. agri-products and insurance group has been building up a 9.54 per cent holding.

Mr. Ferguson Lacey is also expected to announce the sale of his near 30 per cent holding in Edinburgh General Insurance Services (formerly Edinburgh and General Investments) of which he became chairman a year ago.

Shortly after taking over the board Mr. Ferguson Lacey sold his private insurance-brokerage company, Meara Gibson, to Edinburgh, and made a three for five rights issue.

The sales of these holdings will leave Mr. Ferguson Lacey with a portfolio almost entirely in the energy sector. The exception is Bernard Wardle, the vinyl textile manufacturer which he recently took over.

SHERATON SECS.

English Association has received acceptances of its offer for 1,803,774 ordinary shares in Sheraton Securities International totalling 177,247 shares (2.3 per cent). The offer is now closed.

OIL MERGER

VALUATION

An independent report has been drawn up assessing the values of the oil, gas and uranium interests of three linked oil companies which are discussing a full merger—Cambridge Royalty Company of Houston in the U.S., Cambridge Petroleum Royalties of London, and Petroleum Royalties of Ireland, based in Dublin.

They show relative values of each company's energy assets totalling \$10.72m for Cambridge Royalty, \$12.87m for Cambridge Petroleum, and \$10.33m for Petroleum Royalties.

The figures, compiled by DeGolyer and MacNaughton, petroleum engineers of Dallas, Texas, do not cover the companies' other assets or liabilities, or their share and option cross-holdings in each other.

Merger talks between the three Cambridge Royalty manages the other two were announced in February. Further talks will be held soon.

Improvement forecast by Rush and Tompkins

A LARGE development programme, fully financed and substantially pre-let or under offer, and an increased forward order book on construction should allow Rush and Tompkins Group to achieve improved results in 1980, Mr. Derek Palmer, chairman, says in his annual statement.

However, he adds that the start of the current year, for this property investment and estate development concern, has been marked by the national steel strike which will affect supplies "for many months."

He says group projects now in hand which were started in the past two or three years, and which may take another three or four to complete, will have a total value on completion of well over £100m. Many will be sold, but some will be retained. As announced on April 24, pre-tax profit for 1979 rose by about 40 per cent from £1.17m to a record £1.63m on turnover up 34 per cent from £61.23m to £81.76m. The final dividend is 2.5p, lifting the net total from 3.235p to 3.75p.

The annual meeting will be held at the Charing Cross Hotel, WC, on June 12 at 2.30 p.m.

Progress for Tarmac in difficult year

Reduced volumes in a number of Tarmac divisions are being budgeted for this year but despite this the group expects to make further progress in 1980, Mr. E. W. Wright, the chairman, says in his annual report.

Pre-tax profits last year improved from £26.47m to £38.03m from turnover of £596.27m against £752.03m.

In July, the remaining equity interest in Cubitts Nigeria was sold and the group has now no involvement in Nigeria.

The remaining interests in Germany were sold in November producing a reduction in net borrowings of some £5m. The accounts also show extragratia payments to former directors of £215,000. Meeting, Hyde Park Hotel, Knightsbridge, SW, June 17 at noon.

Seligmann Rayner joins NY Exchange

Seligmann Rayner, the small city brokerage house, has become the first British firm to join the New York Stock Exchange. The move follows recent changes in regulations, permitting foreign firms to obtain membership of the exchange.

Seligmann has not opted for a seat on the exchange though its senior partner, Mr. Robert Harris, said that it may want to pay for a seat after it has become thoroughly familiar with the NYSE.

The firm has set up an associate company, Seligmann Harris Inc. to deal on the exchange. Seligmann Rayner and Mr. Harris each own 40 per cent of the new company, with Investor making up the balance. Seligmann Rayner has been active in the London trade options market and intends to establish a presence in the New York options market through its new associate.

FT Share

Information

The following securities have been added to the Share Information Service appearing in the Financial Times:—
Air Call (Section: Electricals)
Merley (R. L.) (Chemicals)
Trust of Property Shares (Property)

TENDERS MUST BE LODGED NOT LATER THAN 10.00 A.M. ON THURSDAY, 27TH MAY 1980 AT THE BANK OF ENGLAND, NEW ISSUES, WAITING STREET, LONDON, EC4M 3AT OR NOT LATER THAN 12.30 P.M. ON WEDNESDAY, 27TH MAY 1980 AT ANY OF THE BRANCHES OF THE BANK OF ENGLAND OR THE GLASGOW AGENCY OF THE BANK OF ENGLAND. TENDERS MUST BE IN SEALED ENVELOPES MARKED "TREASURY TENDER."

ISSUE BY TENDER OF £600,000,000

3 per cent TREASURY STOCK, 1985

MINIMUM TENDER PRICE £69.00 PER CENT

PAYABLE IN FULL WITH TENDER

INTEREST PAYABLE HALF-YEARLY ON 21ST MAY AND 21ST NOVEMBER

This Stock is an investment falling within Part II of the First Schedule to the Trustee Investments Act 1961. Applications must be sent to the Official List.

THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND are authorised to receive tenders for the above Stock. The principal and interest on this Stock will be a charge on the National Loans Fund, with recourse to the Consolidated Fund of the United Kingdom.

The Stock will be repaid at par on 21st May 1985. The Stock will be registered at the Bank of England or at the Bank of Ireland, Belfast, and will be transferable, in multiples of one new penny, by instrument in writing in accordance with the Stock Transfer Act 1983. Transfers will be free of stamp duty.

Interest will be payable half-yearly on 21st May and 21st November. Income tax will be deducted from payments of more than 25 per cent. Interest warrants will be transmitted by post. The first payment will be made on 21st November 1980 at the rate of £1.4686 per £100 of the Stock.

Tenders must be lodged not later than 10.00 a.m. on Thursday, 29th May 1980 at the Bank of England, New Issues, Waiting Street, London, EC4M 3AA or not later than 12.30 p.m. on Wednesday, 28th May 1980 at any of the branches of the Bank of England or at the Glasgow Agency of the Bank of England, 155 St. Vincent Street, Glasgow, G2 7LJ. The minimum price, below which tenders will not be accepted, is £68.00 per cent. Tenders must be made at the minimum price or at higher prices which are multiples of 25p. Tenders lodged without a price being stated will be deemed to have been made at the minimum price.

Tenders must be accompanied by payment in full, i.e. the price tendered (minimum of £50.00) for every £100 nominal of Stock tendered, plus interest on the amount tendered, and be payable in the United Kingdom, the Channel Islands or the Isle of Man. Tenders must be in sealed envelopes marked "Treasury Tender".

Tenders must be for a minimum of £100 Stock and for multiples of Stock as follows:—

Amount of Stock tendered for	Multiple
£100—£2,000	£100
£2,000—£5,000	£500
£5,000—£10,000	£1,000
£10,000—£100,000	£5,000
£100,000 or greater	£10,000

Her Majesty's Treasury reserve the right to reject any tender or to allot a loan amount not that tendered for, if undersubscribed. The Stock will be allotted at the minimum price to the Governor and Company of the Bank of England, 155 St. Vincent Street, Glasgow, G2 7LJ, or to the Glasgow Agency of the Bank of England, 155 St. Vincent Street, Glasgow, G2 7LJ, at which any tender is accepted (the allotment price), and tenders accepted at prices above the allotment price will be allotted in full.

No tender shall be subject to any form in which the Stock may be transferred prior to registration, will be despatched by post at the risk of the tenderer, but the despatch of any letter of allotment, and the refund of any excess amount paid, must be made at the discretion of the Bank of England. The tenderer's cheque must be paid, in the event of such withholding, the tenderer will be notified by letter by the Bank of England of the acceptance of his tender and of the amount of Stock allocated to him subject to each case to payment of his cheque, but such notification will confer no right on the tenderer to transfer the Stock so allocated.

No allotment will be made for a less amount than £100 Stock. In the event of partial allotment, or of tender at prices above the allotment price, the whole amount paid will, when returned, be remitted by cheque despatched by post at the risk of the tenderer; if no allotment is made the amount paid with tender will be returned likewise. Non-payment on presentation of a cheque in respect of any Stock allotted will render the allotment of such Stock liable to cancellation, interest at the rate of 1 per cent per annum over the Bank of England's Minimum Lending Rate on a day-to-day basis may, however, be charged on the amount payable in respect of any allotment of Stock for which payment is accepted after the due date.

Letters of allotment may be split into denominations of multiples of £100 on written request made by the tenderer to the Bank of England, New Issues, Waiting Street, London, EC4M 3AA, or by any of the Branches of the Bank of England, on any date not later than 2nd July 1980. Such requests must be signed and must be accompanied by the letters of allotment. Letters of allotment, accompanied by a completed registration form, may be sent by post or by hand, and in any case they must be lodged for registration not later than 4th July 1980.

Tender forms and copies of this prospectus may be obtained at the Bank of England, New Issues, Waiting Street, London, EC4M 3AA, or at any of the Branches of the Bank of England, or at the Glasgow Agency of the Bank of England, 155 St. Vincent Street, Glasgow, G2 7LJ, or at any office of the Bank of England in the United Kingdom.

23rd May 1980.

THIS FORM MAY BE USED

TENDER FORM

This form must be lodged not later than 10.00 a.m. on Thursday, 29th May 1980 at the Bank of England, New Issues, Waiting Street, London, EC4M 3AA or not later than 12.30 p.m. on Wednesday, 28th May 1980 at any of the branches of the Bank of England or at the Glasgow Agency of the Bank of England. Tenders must be in sealed envelopes marked "Treasury Tender."

ISSUE BY TENDER OF £600,000,000

3 per cent TREASURY STOCK, 1985

MINIMUM TENDER PRICE £69.00 PER CENT

TO THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND
I/We tender in accordance with the terms of the prospectus dated 23rd May 1980 as follows:—

Amount of above-mentioned Stock tendered for, being a minimum of £100 and in a multiple as follows:—

Amount of Stock tendered for	Multiple
£100—£2,000	£100
£2,000—£5,000	£500
£5,000—£10,000	£1,000
£10,000—£100,000	£5,000
£100,000 or greater	£10,000

The price tendered per £100 Stock, being a multiple of 25p and not less than the minimum tender price of £68.00:—

Sum enclosed, being the amount required for payment in full, i.e. the price tendered (minimum of £50.00) for every £100 nominal of Stock tendered for:—

I/We request that any letter of allotment in respect of Stock allotted to me/us be sent by post at my/our risk to me/us at the address shown below.

SIGNATURE _____
of, or on behalf of, tenderer

PLEASE USE BLOCK LETTERS

MR/MRS/MISS _____
FULL POSTAL ADDRESS: _____

POST-TOWN _____ COUNTY _____ POSTCODE _____

STAMP OF LODGING AGENT (IF ANY)

a The price tendered must be a multiple of 25p and not less than the minimum tender price. If no price is stated, the tender will be deemed to have been made at the minimum tender price. Each tender must be for one amount and at one price.

b A separate cheque must accompany each tender. Cheques should be made payable to "Bank of England" and crossed "Treasury Stock". Cheques must be drawn on a bank in, and be payable in, the United Kingdom, the Channel Islands or the Isle of Man.

FT 27/5

The Scottish Mortgage and Trust Company Limited

The Company is a member of The Association of Investment Trust Companies

Directors

T. R. Macgregor, Chairman
Sir James Blair-Cunninghame
D. F. McCurrah
H. R. MacLeod
J. G. C. White
Sir Michael Young-Herries

Summary of Results for year to 31st March	1980	1979
Total Net Assets at Market Value	£108,249,375	£135,176,535
Ordinary Stock Units:		
Asset Value	143.5p	160.3p
Earnings	5.38p	3.99p
Dividend	5.20p	3.90p
Geographical Distribution of Investments	%	%
Equities: United Kingdom	50.1	47.3
United States	32.8	26.3
Japan and S.E. Asia	5.4	3.6
Other Countries	7.1	1.7
Total Equities	95.4	78.9
Fixed Interest Stocks	3.2	21.2
Deposits and Net Current Assets	1.4	(0.1)

Excerpts from the Statement by the Chairman, Mr. T. R. Macgregor.

● Earnings per share increased by 35% from 3.99p to 5.38p. This includes 0.30p from special dividends declared but withheld during the period of dividend reduction. The recommended total dividend of 5.20p represents an increase of 33% over the dividend paid for last year.

● The asset value per share fell by 10% to 143.5p reflecting a fall in the U.K. equity market and a substantial fall in sterling terms in the U.S. market after allowing for currency movements and the abolition of the Premium.

● During the year we sold British Government securities to finance the purchase of Dollars to repay \$30.5 million of loans. This, together with

the almost complete sale of Deutsche Bank Bonds, has caused the equity funds to rise from 79% to 85%. We propose to remain fully invested in ordinary shares and since the year-end we have borrowed £5 million to extend our equity interests, mainly in the U.K. and the U.S.

● Overspending by governments has caused interest rates to rise to extremely high levels. Unfortunately reduction in government expenditure is now being made more difficult by the need to increase defence spending in the face of Russian activity in the Middle East. While this may support economic activity to some extent, it may also postpone the day when inflation is brought under control.

Copies of the Annual Report may be obtained from

Baillie Gifford & Co.

3 Glenfinlas Street, Edinburgh, EH3 6VY.

Another record year

	1979	1978	
Turnover	£10,663,000	£5,395,000	+98%
Profit before tax	£1,204,000	£470,000	+156%
Profit after tax	£969,000	£427,000	+127%
Earnings per share	7.9p	4.3p	+84%

Total ordinary dividends for the year are 1.575p net, an 85% increase on 1978.

The board is confident of its ability to beat the continuing economic problems of 1980 and to maintain the rising trend in earnings and assets per share.

ALLIED PLANT GROUP LTD

For a copy of the 1979 Report, write to the Secretary, Allied Plant Group Ltd., 79 Beverley Road, Hull, HU3 1XR

NEW ISSUE

These securities having been sold, this announcement appears as a matter of record only.

U.S. \$25,000,000

J. C. Penney Overseas Capital N.V.

(Incorporated with limited liability in the Netherlands Antilles)

13 1/2% Guaranteed Notes Due 1985

Guaranteed unconditionally as to principal, premium, if any, and interest by

J. C. Penney Financial Corporation

Credit Suisse First Boston Limited

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LOCAL AUTHORITY BONDS

Every Saturday the Financial Times publishes a table giving details of

LOCAL AUTHORITY BONDS

on offer to the public. For advertisement details please ring: B. Kelaart 01-248 8000, Extn. 266

ISE Canadian Finance Ltd.

0 5/8% Guaranteed Debentures due 1985. Notice is hereby given to Debentureholders that during the twelve month period ended May 1, 1980, there was no default in the payment of interest on the Debentures. The Debentures are secured by a first charge on the assets of the Issuer. The Debentures are listed on the Toronto Stock Exchange. The Debentures are payable in the United Kingdom, the Channel Islands or the Isle of Man.

May 1, 1980

هكزان الاكسيل

Sharp downturn for Hudsons Bay

BY ROBERT GIBBENS IN MONTREAL

HUDSONS BAY Company, Canada's largest merchandising group and also a big factor in real estate and resources, has surprised the financial markets with the extent of its operating loss for the first quarter-ended April 30.

The company, which is now controlled by the Thomson family interests, reports an operating loss for the quarter of C\$8.6m (U.S.\$10m) compared with an operating profit of C\$2.9m or 1 cent a share for the first quarter of the previous year. Revenues totalled C\$754m, against C\$701m.

Hudson's Bay had earlier warned that its first quarter results would be "poor," but the

markets did not expect such a large operating loss.

High interest rates and weakening demand due to the North American recession have been having an adverse effect on most Canadian merchandisers this year. Hudson's Bay cites a generally softer retail picture and does not see much of an upturn coming during the year. It owns the Bay chain of department stores across Canada and also Simpsons, controls the Zeller's, the mass-merchandising chain, and owns a 44 per cent stake in Simpsons-Sears, another department store chain which also operates Canada's largest mail order business and is controlled by Sears Roebuck of the U.S.

Hudson's Bay has an extensive expansion programme under way and has a large short-term debt position as a sequel to its takeover activities of the past two years. Financing costs in the first quarter were C\$30.9m against C\$26m, as interest rates rose to new peaks in April.

The company's merchandising division turned in the largest loss in the group, including Bay, Simpsons and Zeller's results and also those of the fur division. There was a merchandising loss of \$5.4m, against a profit of \$16.9m in the previous first quarter. Last year's figures were buoyed by record high prices and volume in furs. Canadian merchandisers make

about 40 per cent of their profits during the final months of the year, but Hudsons Bay does not expect full year's earnings to match last year's C\$2.58 a share.

The performance in other divisions in the first quarter was better. Real estate revenues almost doubled to C\$6m and resources income was steady around C\$4m. Hudsons Bay's final loss for the quarter was C\$1.3m after a special gain of C\$7.2m on exchange of Bay debentures for common shares. Hudson's Bay Oil and Gas, a year earlier a C\$5.5m gain from the same source made final earnings of C\$3.4m or 25 cents a share.

Further slide in earnings at Swedish bank

By William Duffell in Stockholm

SKANDINAVISKA Enskilda Banken reports a further slide in earnings for the first four months of 1980. At SKr 204m (\$48.3m) earnings on the banking operations were SKr 30m lower than in the previous four months and 30 per cent or SKr 89m short of the result for the first four months of 1979.

The bank's total income fell by SKr 52m or 7 per cent against the corresponding period of last year, while costs, including losses on loans, climbed by SKr 37m or 9 per cent. Figures for the consolidated account, including bank subsidiaries, are not yet available.

The interim report attributes the profit slump to the tight monetary controls which started to depress bank earnings in the last four months of last year.

A reduction from 8 to 2 per cent in the cash quotas the banks must hold in the Riksbank (central bank) was made in April. This will have a positive effect on Skandinaviska Enskilda's 1980 earnings in that the SKr 2.7bn released can be placed in state bonds with a relatively high coupon.

The managing directors maintain their earlier forecast that 1980 profits would be "clearly lower" than in 1979.

The bank's lending rose by SKr 5.4bn or almost 18 per cent. Figures for the consolidated placement margin—the difference between the return on all its placements and the average cost of liabilities—fell from 2.74 per cent during the first four months of 1979 to 1.87 per cent.

Full year deficit at Alitalia

BY RUPERT CORNWALL IN ROME

ALITALIA, the Italian state airline, has reported a net loss of L1,780bn (\$4.5m) for last year compared with a profit of L1,150bn in 1978. However, the true loss would have been L1,730bn, but for the use of L1,030bn set aside in previous years for reserves.

The deficit, in keeping with the performance of most major international airlines last year, reflected in part the doubling of aircraft fuel costs during the year, and the loss of revenue caused by the compulsory grounding of Alitalia's DC-10 fleet for a month after the Chicago air disaster.

The Board pointed out, however, that the problems had

been made worse by the plague of stoppages throughout the year, first by hostesses and stewards and then by air traffic controllers. These had forced long delays and numerous cancellations of flights.

Total revenue in 1979 rose to L1,079bn (\$1,283bn), up 12.3 per cent on the L960bn of 1978, while overall costs climbed by 15 per cent to L1,093bn from L946bn. Depreciation and amortisation provisions were L67bn.

Meanwhile, the airline is planning to announce at the annual shareholders meeting next month the name of the accounting firm which will henceforth carry out the full auditing of its yearly balance sheet.

ANIC, the chemical subsidiary of the state-owned ENI energy group, yesterday reported a two-thirds drop in its loss last year, to L560bn from 1978's L1,780bn (\$212m). The deficit was entirely due to continuing losses on its synthetic fibres operations, especially at Ottana in Sardinia.

The loss was in spite of a 50 per cent jump in group sales in 1979. Despite further progress in the first four months of 1980, during which turnover climbed 30 per cent to L920bn (\$1.1bn), compared with the same period of last year, the fibres division is continuing to lose money.

Advance by Mitsubishi

TOKYO — Japan's leading machinery maker, Mitsubishi Heavy Industries, reports that its parent company net profit in the year ended March 31 rose 20.9 per cent to ¥11.7bn (\$52m) from ¥9.67bn in the previous year. Sales gained 5.8 per cent to ¥124.9bn. Per-share profit was unchanged at ¥4.

The major reason for the net profit increase was a jump in foreign exchange earnings due to the yen's decline. The company posted a ¥7.5bn foreign exchange gain, Mitsubishi said in the previous year, it had suffered a ¥2.5bn exchange loss because of the yen's appreciation.

Among major items, sales of ships and steel bridges remained sluggish at ¥225.12bn, down 1.9 per cent

Mitsubishi said it expected both after-tax profit and sales for the current year ending March 31, 1981, to be almost unchanged from those of 1979-1980.

● Tokyo Gas Company reports after-tax profits of ¥1.77bn for the year ended March 31, compared with ¥13.3bn in the previous year. Sales rose to ¥464.2bn from ¥428.4bn. The dividend is ¥4, against ¥5.

● Kansai Electric Power Company has suffered an after-tax deficit of ¥18.77bn for the year ended March 31, compared with a ¥45.87bn profit in the previous year. Sales were ¥1,220bn, against ¥1,170bn. The dividend is cut from ¥50 to ¥30.

Japanese telecommunications, Page 18

SHV seeks overseas base

By Charles Batchelor in Amsterdam

A MAJOR Dutch trading group, SHV Holdings, is studying ways of carrying on its worldwide operations from a base outside Europe in the face of growing international tension. SHV, which ranks among the top six or seven companies in the Netherlands in terms of turnover, is considering moving its registered office to the U.S. or Brazil.

SHV is a privately-owned company which this week reported a trebling of its net profit to F1 109m (\$55m) in 1979, on sales 18 per cent higher at F1 10.1bn (\$5.1bn).

Date	Announcement last year	Date	Announcement last year
*Allied Breweries...June 10	Final 1.831	*ICI...May 29	Int. 1.25
*Anglo Am. Corp. of S.A...June 5	Final 32 cts.	*Int. Timber Johnson...June 12	Final 5.085
*Arbutnot Latham...June 21	Final due	*Kenning...June 12	Final 5.9
*Armstrong...June 6	Final 3.19	*Motor...June 25	Int. 1.75
*Assoc. Brit. Foods...June 11	Sec. Int. 1.7	*Lindström...June 21	Final 6.6
*BAT Inds...June 26	Final due	*Land, O'Leary...May 30	Final 1.072
*BPS Inds...June 27	Final 9.0	*Lorrie...June 29	Int. 2.84
*Baker Perkins...June 21	Sec. Int. 4.35	*Marley...June 27	Final 6.7
*Beas...May 28	Int. 2.1	*Metal Box...June 11	Final 10.72
*Bernstorff...June 21	Final 12.075	*MPC...June 3	Int. 1.5
*Brit. & Com. Shippers...June 14	Final 5.838	*Minster...June 22	Final 2.3
*Brown (John)...June 29	Final 40.239	*Assets...May 30	Final 3.0
*Capital and Counties...May 30	Int. 2.15	*News Intl...June 25	Final 3.18
*Chloride...June 12	Final 4.6	*Northern Foods...June 12	Int. 1.65
*Chubb...June 27	Final 3.478	*Pegler...June 5	Final 5.031
*Coca-Cola...May 29	Final 2.043	*Perry Bliton...June 2	Final 4.636
*Comp Air...June 13	Int. 1.65	*Pilkington...June 15	Final 4.6
*Courtauld...May 28	Final 5.674	*Plessey...June 28	Final 3.645
*Daily Gen. Tel...June 12	Int. 9.368	*Powell...June 27	Final 7.1
*Dawson Intl...June 18	Final 4	*Procl. of Navy Wharf...May 29	Int. 1.72
*De La Rue...June 3	Final due	*Radcliff...June 19	Final 5.8
*Easton...June 30	Final 3.082	*Radson...June 28	Final 4.0
*Effort (B.)...June 25	Final 7.25	*Reed Intl...June 29	Final 1.244
*Elfray...June 14	Int. 2.117	*Renold...June 26	Final 7.55
*Exchange Telegraphs...May 29	Final 4.0335	*800 Group...June 11	Final 2.034
*GEI Intl...June 12	Final 3.028	*Stead Intl...June 5	Final 3.284
*Goldfield...June 10	Int. 1.53	*Simpson...June 28	Final 2.05
*Granada...June 20	Int. 1.44	*Teco Stores...June 20	Final 1.1939
*Gr. Northern Inv. Tel...June 18	Int. 1.5	*Trusthouse Forte...June 19	Int. 2
*Great Portland Estates...June 9	Final 4.0	*Tunnel...June 21	Final 8.5
*Greenall...May 29	Int. 3.15	*Ward (T.W.)...June 3	Final 2.7855
*Guinness (A.)...June 13	Final 6.519	*Wedgwood...June 13	Final 2.428
*Guthrie...June 7	Final 15.0	*Westland Aircraft...June 13	Int. 1.0
*Hambros...June 18	Final 67.24	*Whitecroft...June 25	Final 5.2
*Hanson Trust...June 11	Int. 3.27	*Wilkinson...June 21	Final 7.148
*Harrisons and Croftfield...June 3	Final 17.33	*Wolv. & Dudley Brews...May 30	Int. 2.5
*Hill Samuel...June 12	Final 3.485		

BASE LENDING RATES	
A.B.N. Bank...17%	Hambros Bank...17%
Allied Irish Bank...17%	Hill Samuel...17%
American Express...17%	Hongkong & Shanghai...17%
Amro Bank...17%	Industrial Bk. of Scot...17%
Henry Ansbacher...17%	Keyser Ullmann...17%
A.P. Bank Ltd...17%	Knowles & Co. Ltd...17%
Arbutnot Latham...17%	Langris Trust Ltd...17%
Associates Cap. Corp...17%	Lloyds Bank...17%
Barclays Bank...17%	Edward Manson & Co...17%
Bank of Credit & Commerce...17%	Midland Bank...17%
Bank of Cyprus...17%	Midland Montagu...17%
Bank of N.S.W...17%	Morgan Grenfell...17%
Banque Belge Ltd...17%	National Westminster...17%
Banque du Rhone et de la Tamise S.A...17%	Norwich General Trust...17%
Barclays Bank...17%	P. S. Refson & Co...17%
Bremer Holdings Ltd...17%	Roginister...17%
Brit. Bank of Mid. East...17%	Ryl. Bk Canada (Ltd)...17%
Brown Shipley...17%	Schlesinger Limited...17%
Canada Perm. Trust...17%	E. S. Schwab...17%
Cayzer Ltd...17%	Security Trust Co. Ltd...17%
Cedar Holdings...17%	Standard Chartered...17%
Charterhouse Japhet...17%	Trade Dev. Bank...17%
Charlton Savings Bank...17%	Twentieth Century Bk...17%
C. E. Coates...17%	United Bank of Kuwait...17%
Consolidated Credits...17%	Whiteaway Laidlaw...17%
Co-operative Bank...17%	Williams & Glyn's...17%
Corinthian Secs...17%	Winttrust Secs. Ltd...17%
The Cyprus Popular Bk...17%	Yorkshire Bank...17%
Duncan Lawrie...17%	
Eagle Trust...17%	
First Nat. Fin. Corp...17%	
First Nat. Secs. Ltd...17%	
Robert Fraser...17%	
Anthony Gibbs...17%	
Greyhound Guaranty...17%	
Grindlays Bank...17%	
Guinness Mahon...17%	

I.G. Index Limited 01-351 3466. August Sugar 376.70-378.80
29 Lamont Road, London SW10 0RS.
1. Tax-free trading on commodity futures.
2. The commodity futures market for the small investor.

CORAL INDEX: Close 422-427

RECENT ISSUES

EQUITIES

Issue Price	1980	Stock	1980	Stock
85	F.P. 16/5	84	Amstrad Cons. Elect.	85
85	F.P. 16/5	84	Edwards (L.O.)	85
85	F.P. 16/5	84	Edwards (L.O.)	85
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FIXED INTEREST STOCKS

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100	F.P. 16/5	84	Amstrad Cons. Elect.	85
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"RIGHTS" OFFERS

Issue Price	1980	Stock	1980	Stock
20	F.P. 16/5	84	Amstrad Cons. Elect.	85
20	F.P. 16/5	84	Edwards (L.O.)	85
20	F.P. 16/5	84	Edwards (L.O.)	85
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20	F.P. 16/5	84	Edwards (L.O.)	85

Renotation date usually last day for dealing free of stamp duty. A Figures based on prospectus and yield a forecast dividend: cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1979. Q Gross. 1 Figures assumed. 2 Cover allows for conversion of shares not now seeking for dividend or ranking only for restricted dividends. 3 Placing price to public. 4 Pence unless otherwise indicated. 5 Issued by tender. 6 Offered to holders of ordinary shares as a "rights" issue. 7 Issued by way of capitalisation. 8 Reintroduced. 9 Issued in connection with reorganisation, merger or takeover. 10 Introduction. 11 Provisional. 12 Former preference holders. 13 Allotment letters (or fully-paid). 14 Provisional. 15 Party-paid allotment letters. 16 With warrants. 17 Unlisted security. 18 Issued as bonus comprising 2 participating ord. shares and 1 ord. share at 10.50 per unit. 19 Dealings under special rule.

War that never ends

We British are a peaceful people. When a war is over we like to consign it to the history books — and forget it.

But for some the wars live on. The disabled from both World Wars and from lesser campaigns, now all too easily forgotten: the widows, the orphans and the children — for them their war lives on, every day and all day.

In many cases, of course, there is help from a pension. But there is a limit to what any Government Department can do.

This is where Army Benevolence steps in. With understanding. With a sense of urgency... and with practical, financial help.

To us it is a privilege to help these brave men — and women, too. Please will you help us to do more? We must not let our soldiers down.

The Army Benevolent Fund

for soldiers, ex-soldiers and their families in distress
Dept. FT, Duke of York's HQ, London SW3 4SP

U.S. \$30,000,000

The Mitsui Bank Ltd.

Negotiable Floating Rate U.S. Dollar
Certificates of Deposit
Series B—Maturity date 24 November 1980

In accordance with the provisions of the Certificate of Deposit notice is hereby given that for the final six-month interest period from 27 May 1980 to 24 November 1980 the Certificate will carry an interest rate of 10 1/4% per annum.

Agent Bank
The Chase Manhattan Bank, N.A.,
London

Citicorp Overseas Finance Corporation Limited

(Incorporated with limited liability in the British Virgin Islands)

US\$300,000,000
Guaranteed Floating Rate Notes due 1983
Unconditionally guaranteed by

CITICORP

In accordance with the terms and conditions of the above-mentioned Notes and the Agent Bank Agreement dated as of August 20, 1979 between Citicorp Overseas Finance Corporation Limited and Citibank, N.A., notice is hereby given that the Rate of Interest has been fixed at 10 1/4% per annum and that the interest payable on the relevant Interest Payment Date, namely August 27, 1980 in respect of US\$10,000 nominal of the Notes will be US\$260.35

May 27, 1980
By: Citibank, N.A., London, Agent Bank

CITIBANK

LOCAL AUTHORITY BOND TABLE			
Authority (telephone number in parentheses)	Annual Interest gross pay- interest able	Life sum	Year
Knowsley (051 548 6555)	14 1/4	1,000	1
Redbridge (01-478 3020)	14 1/4	200	2-3
Redbridge (01-478 3020)	14 1/4	200	3-8

UNIT TRUST SERVICE

OFFSHORE & OVERSEAS—contd.

King & Shazman Mgmt.	Schlesinger International Mgmt. Ltd.
1. Charles Dore, St. Helier, Jersey. (0534) 72741	41, La Motte St., St. Helier, Jersey. (0534) 25088
2. Thomas Dore, St. Helier, Jersey. (0534) 72742	42, La Motte St., St. Helier, Jersey. (0534) 25089
3. Thomas Dore, St. Helier, Jersey. (0534) 72743	43, La Motte St., St. Helier, Jersey. (0534) 25090
4. Thomas Dore, St. Helier, Jersey. (0534) 72744	44, La Motte St., St. Helier, Jersey. (0534) 25091
5. Thomas Dore, St. Helier, Jersey. (0534) 72745	45, La Motte St., St. Helier, Jersey. (0534) 25092

RECENT ISSUES

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World Banking Conference

Singapore June 2 & 3 1980

The international economic outlook and how political trends may affect it will be the theme of the opening address to be given by Mr S.Dhanabalan, Singapore Minister of State for Foreign Affairs, at this important annual event to be arranged this year in Singapore.

The panel of speakers will, as usual on these occasions, represent the viewpoints of commercial and investment banking, regional lending institutions, industry and government.

The 1980 World Banking Conference will offer a valuable occasion for members of the international financial community to assess developments in the South East Asian region and for bankers and corporate treasurers from Singapore and nearby capitals to discuss global developments with speakers from outside the region.

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Continued on previous page

CUBITS
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FINANCIAL TIMES

Tuesday May 27 1980



Diplomats play down optimism over U.S. hostages

Iran fact-finding trip ends

BY ANDREW WHITLEY IN TEHRAN

THREE European Socialist leaders, headed by Dr. Bruno Kreisky, the Austrian Chancellor, were due last night to end their brief fact-finding mission to Iran. Aimed at helping secure the release of the American hostages, the mission formed part of a series of initiatives now under way or in preparation.

However, diplomats here are deliberately playing down any optimism that this might be successful in the near future. Dr. Kreisky, Mr. Olaf Palme and Sr. Felipe Gonzalez, the Swedish and Spanish opposition leaders, held several rounds of meetings yesterday with prominent Iranians. These included Mr. Abolhasan Bani Sadr, the President, and Ayatollah Mohammed Beshiri, his chief rival and leader of the militant

Islamic Republican Party. Later, a meeting with the full revolutionary council was planned. However, the mission failed to see Ayatollah Khomeini, as it had hoped. It apparently did not attempt to visit the 50 hostages, said to have been dispersed to 15 towns and cities around the country.

On the eve of their trip, the militant students holding the hostages issued a tough statement saying they would not permit any further meetings with their charges and calling on the Government not to press them to do so.

The two-day visit by the Socialist International's delegation overshadowed the return to Iran of Adid Davidi, of Syria, a member of the United Nations Commission charged

with resolving the crisis. Mr. Davidi arrived in Tehran on Saturday and has held one meeting with Mr. Sadeq Ootbzadeh, the Iranian Foreign Minister.

Mr. Davidi and Mr. Ootbzadeh are believed to be working to achieve the completion of the UN Mission's work, suspended in March when access to the hostages was vetoed by Ayatollah Khomeini, and the publication of its report.

Sources close to the Syrians said that after yesterday's meeting the gap between the two sides had been narrowed but not closed.

These two initiatives appear to be working along parallel lines. Meanwhile, other schemes considered have in the objective of public condemnation of the U.S. to pave the way for the

release of the hostages. The schemes include an international conference of several hundred foreign notables to be held in the Iranian capital from next Monday.

Another proposal is that the new Parliament could hand the hostages over to a group of Third World countries, possibly pending the trial of the Shah in absentia or some kind of tribunal to investigate Iran's allegations of U.S. interference in its internal affairs during the Shah's rule.

The Parliament opens on Wednesday, but judging by recent statements is not expected to discuss the hostages for at least three weeks until it has agreed its own internal procedures and settled the question of a Prime Minister and Cabinet.

Hong Kong exchange merger agreed

By Our Foreign Staff

AGREEMENT has been reached after three years of argument on the mechanism for merging Hong Kong's four stock exchanges into a single unit. But it will probably be three years before the new exchange is in operation.

All members of existing exchanges will be able to buy membership of the new exchange, to be known as the Stock Exchange of Hong Kong. When this becomes operational, existing exchanges will be put into liquidation and their assets distributed to members. No account will be taken of any differences in goodwill value between existing members.

Shares in the new exchange will cost HK\$40,000 (£3,654) on a part-paid basis. Even though a transitional committee on the basis of how much capital is deemed necessary to acquire and equip premises and provide working capital. All members will have to show liquid assets of not less than HK\$1m.

The liquidity requirement and the uncertain final costs of seat make it likely that many existing brokers will decide it is not worth investing in the long-distance prospect of selling the seat at an eventual profit.

The Government would like to see a thinning out of the brokerage community. At present the four exchanges have a combined membership of 1,065, but only about half are active in the market. Very rough estimates suggest that about 500 will apply for membership of the new exchange.

Very soon, perhaps next month, the Government will introduce legislation to give statutory existence to the new exchange and to ensure its operational framework, and its monopoly in law.

Applications will then be invited for membership. All membership arrangements must be completed within eight months of the legislation.

In the past the separate exchanges have only very begrudgingly responded to the Government's demands that they merge. The Government is thus likely to give itself reserve powers to ensure that the momentum towards bringing the Stock Exchange of Hong Kong into operation is not lost due to the inighting of entrenched interests.

Weather

UK TODAY
RATHER cloudy with occasional showers. Cool.
London, E. Cent. and S. England
Cloudy, bright intervals, showers. Cool. Max 13-15C (55-59F).

W. and S.W. England, Wales, Lakes, I. of Man
Cloudy. Sunny intervals and showers. Wind north. Rather cool. Max 13-15C (55-59F).
Borders, Scotland, N. Ireland
Sunny intervals. Showers, wind north. Rather cool. Max 12C (54-56F).
OUTLOOK: Cool and unsettled, rain. Night frost.

WORLDWIDE

Place	Temp	Wind	Cloud	Temp	Wind	Cloud
Algeria	17	SE	100	17	SE	100
Algiers	20	SE	100	17	SE	100
Amman	16	SE	100	17	SE	100
Antwerp	12	SE	100	17	SE	100
Bahra	32	SE	100	17	SE	100
Batavia	16	SE	100	17	SE	100
Bombay	21	SE	100	17	SE	100
Buenos Aires	15	SE	100	17	SE	100
Calcutta	21	SE	100	17	SE	100
Cairo	18	SE	100	17	SE	100
Cardiff	14	SE	100	17	SE	100
Chongqing	18	SE	100	17	SE	100
Copenhagen	12	SE	100	17	SE	100
Dublin	12	SE	100	17	SE	100
Edinburgh	12	SE	100	17	SE	100
Geneva	12	SE	100	17	SE	100
Hamburg	12	SE	100	17	SE	100
Helsinki	12	SE	100	17	SE	100
London	12	SE	100	17	SE	100
Lyons	12	SE	100	17	SE	100
Madrid	12	SE	100	17	SE	100
Moscow	12	SE	100	17	SE	100
Nairobi	12	SE	100	17	SE	100
Paris	12	SE	100	17	SE	100
Rangoon	12	SE	100	17	SE	100
Reykjavik	12	SE	100	17	SE	100
Rome	12	SE	100	17	SE	100
Singapore	12	SE	100	17	SE	100
Sofia	12	SE	100	17	SE	100
Taipei	12	SE	100	17	SE	100
Tokyo	12	SE	100	17	SE	100
Yokohama	12	SE	100	17	SE	100

THE LEX COLUMN

Companies prepare for the storm

Recessions are normally good news for the stock market. They bring a reduction in financial pressures, falling interest rates and rises in bond and share prices—although equities tend to lag some way behind the upturn in the fixed interest market. The UK stock market now appears to be passing through this interregnum, while gilt-edged prices have been erratically rising in recent weeks—the FT Government Securities Index has put on 6 per cent or so since its March low point—the equity market has on balance tended to drift at best sideways over the same period, and in the past few days has been heading downwards under the influence of a stream of dismal company news.

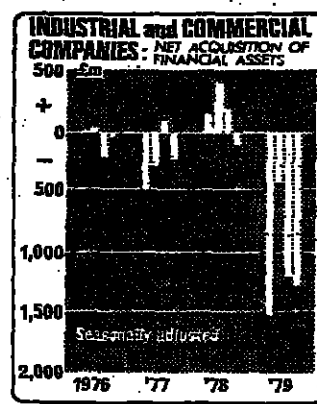
Bearing the brunt

Besides the normal cyclical problems, manufacturing companies are bearing the full brunt of the impact of North Sea oil on the level of sterling. Reported company profits have generally been poor, although only in a few sectors like textiles have there been signs so far of serious financial problems. Somewhat surprisingly, company chairmen have until very recently been moderately optimistic about prospects.

It is plain, however, that April was a pretty dreadful month for new business levels across wide areas of industry, from ICI to GKN. Companies have been forced to take another look at their budgets, and often this appears to have led to a marked reduction in profit expectations. This does not, of course, apply to oil companies, and on present trends North Sea oil companies may soon be earning less than half their profits, net of stock appreciation, being generated in the whole UK company sector.

In the developing squeeze, companies have followed the textbook by beginning to unload stocks and cut their capital spending. Department of Industry figures released last week for first quarter stock changes showed that manufacturers and distributors cut their inventory levels by about 2 per cent in the three months. This was approximately in line with the Budget time Treasury forecast of a 40n or so cut in stocks in the whole of 1980 (a major cause of the forecast economic recession).

Clearly there were some special influences at work in the winter quarter. Stocks of steel and steel products were being used up during the strike.



INDUSTRIAL AND COMMERCIAL COMPANIES' PROFITABILITY INDEX (1976-78)

ends (and stores with January 31 reporting dates) will have been able to claim full stock relief and still make progress in running down stocks in the first calendar quarter.

Companies with March year-ends, however, will have had to wait until April to chop their buying orders back. And it was not until the Budget in late March that finance directors were given the assurance that temporary cuts in stock levels would not trigger an awkward demand for clawed back tax. That concession by the Chancellor could well have led to decisions to liquidate a significant element of stocks.

But the reduction of stocks is a strictly temporary cure for the financial difficulties of companies. In 1980 there is little scope, moreover, for it to be reinforced—as it was in 1975—by the sudden introduction of stock relief. At least this time round there are no price controls, so that at an annual rate of just over 19 per cent wholesale output prices are going up roughly in line with underlying inflation. But this is largely irrelevant to manufacturers of internationally traded goods.

Bitter experience
The conclusion must be that a severe squeeze on industry will persist. There is some comfort in the thought that many large companies gained enough bitter experience in the 1974 crisis to be adept in applying the appropriate nasty medicine this time. But there must be concern that the smaller company sector—comparatively untouched last time outside property and construction—may be facing the full force of the squeeze in 1980.

The potentially alarming trends are highlighted in the latest quarterly review, published today, of the National Institute of Economic and Social Research. The NIESR has joined the London Business School in predicting a precipitous drop in non-North Sea company profits, which met of stock appreciation are forecast to collapse by 70 per cent in 1980 (with a further fall next year).

On this basis the NIESR estimates that the industrial and commercial company sector will be in financial deficit to the extent of some £10bn this year, which in real terms is comparable to the record 1974 deficit, and the position will be much the same in 1981. Indeed, the deficit "may be as large as £15bn."

Strong £ nets £108m for BNOC

BY RAY DAFTER, ENERGY EDITOR

THE STRENGTH of sterling against the dollar has made a gain, even after tax, of £108m. This is the result of a unique form of financing for a state corporation—has cost the corporation just £2m so far.

Mr. Alastair Morton, a managing director of BNOC and one of the architects of the financing, said: "It was a happy coincidence that the exchange rates moved as they did but it was a happy coincidence designed into the system as a possibility."

Between June, 1977, and last month BNOC paid £110m in interest charges. However, by repaying the loans with oil when sterling was much stronger

from an improvement in sterling up to \$825m, which was then passed on to BNOC under a forward oil sales agreement.

BNOC realised last year that it no longer needed all of the financing. It has been repaying the loans early. Today \$275m remains outstanding.

This year BNOC could have pre-tax earnings of over £250m. It is expected that profits exceed £1bn by the mid-1980s.

The Government is still considering a number of schemes which would provide the public with a stake in the corporation. Industry reports suggest that Cabinet Ministers favour the issue of "oil bonds."

Under the arrangements BNOC undertook to deliver oil from 1981 to 1985 to the value of the U.S. financing. The oil has been channelled through a specially-formed U.S. Corporation, BritOil. Under a separate credit arrangement BritOil arranged with a consortium of UK and U.S. banks to borrow

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Oil companies may face inquiry into dealings with retailers

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

AN INVESTIGATION into the relationship between the major oil companies and petrol retailers is being considered by the Office of Fair Trading under the Government's new powers to promote business competition.

The OFT is reviewing a number of complaints from independent petrol retailers, the Motor Agents Association, and some MPs that the big oil companies are trying to squeeze small filling stations out of business.

It is claimed that the oil companies have been keeping their own pump prices artificially low to force independent outlets to sell at uneconomic prices.

Some petrol retailers have also alleged — although with little real evidence — that they have been refused petrol supplies in an attempt to force them out of business.

At the same time the oil companies have created concern among the small garages they own by changing the ownership system from leases to licences.

The oil companies say that this is to enable the sites to be developed more fully. Tenants on leased sites, however, have the right to fix pump prices in much the same way as an independent dealer, but licensed sites enable the oil companies to effectively dictate pump prices.

Retailers' fears about the retail strategy of the major oil companies have arisen mainly because of the economic pressures on small petrol stations, especially in rural areas. Garage numbers have been falling steadily by about 1,000 outlets a year for the past decade and there are fears that this decline could accelerate in the 1980s.

The oil companies find it more economic to deal with large self-service petrol stations in urban areas, but they strongly deny any attempts to force small garages out of business.

A potential OFT investigation into the sector, under the Competition Act, depends on whether any clear-cut evidence can be found of attempts being made to reduce competition.

The Monopolies and Mergers Commission reported at the beginning of last year that the oil companies monopoly power did not operate against the public interest at that time.

The commission found that just over 50 per cent of all petrol sales in 1977 went through company-owned filling stations. More recent figures are understood to show that there has been little significant increase in this proportion.

And, in spite of complaints from individual petrol retailers, the OFT has been given no firm evidence that the oil companies are adopting "predatory pricing policies" to force small outlets out of business.

The OFT could decide to refer the issue again to the commission for a full investigation.

Mr. Gordon Borrie, director general of Fair Trading, was disappointed that the commission did not tackle the subject more fully in its last report, especially since it had been specifically asked to do so.

New system for deeper oil search, Page 4

Technology funding reviewed

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

AN URGENT study of the problems that high technology businesses face in raising capital for new and expanding ventures has been ordered by Sir Keith Joseph, Industry Secretary.

This follows two meetings which Sir Keith has held with founders of small businesses and with representatives of City institutions during which he has been told that a major financing gap exists in the high technology area.

Sir Keith is anxious that the private sector should provide sufficient finance, in spite of the risks involved, because he does not believe that industry should rely on state aid.

This week he is studying U.S. systems of raising capital during visits to high technology companies in Chicago and California.

The Industry Department is examining the complaints heard during Sir Keith's recent meetings and is to prepare him a report based partly on specific examples.

The first meeting was attended by five entrepreneurs from new micro-electronic companies and two representatives of financial institutions specially concerned with small business and start-up capital.

At the second meeting there were businessmen from six established micro-electronics companies and six representatives of pension funds, banks and other institutions.

All the businessmen stressed that there was insufficient start-up and development capital available. They said that a lack of communication between businesses and financial institutions was not the sole problem because the institutions often did not act when they heard of investment possibilities.

It accounted for nearly one-fifth of the British machine tool output.

"But, partly with the benefit of hindsight, we may question whether it was necessary to help increase the size of the very largest units," says the article.

Even in the very successful German machine tool industry, the median plant size has remained at under 500 employees. Yet at its peak Herbert's largest plant had 5,000 employees.

There was no evidence that plants of this dimension were required for success in this industry.

"While marketing may be carried out more efficiently on a large scale and is an important factor in the success of a machine tool company, and important, and it is far from obvious that very large companies have any advantage

to mitigate the industry's deficiencies, have not tackled the root causes of the problem which seem to lie in a generalised technological backwardness."

An article about the study by Anne Daly and Daniel T. Jones, members of the study team, published in the National Institute Economic Review concludes that by West-German standards the extent and nature of technical training of the British labour force employed in the machine tool industry "seems seriously deficient."

Shortages of skilled manpower are endemic in this and related industries in Britain.

"About half of all employees in this industry in Britain and Germany are termed as craftsmen, but those so classified in Britain have not been required to attend any courses or pass any practical or theoretical test, it says.

Machine tool industry 'backward'

FINANCIAL TIMES REPORTER

CRITICISM has been levelled at the machine tool industry spent nearly £100m of Government money between 1966 and 1978.

A study team says of the findings, which included substantial support for Alfred Herbert: "The study has been spent on symptoms and too little on treating more fundamental ills."

This is one of the main conclusions in the study undertaken at the National Institute of Economic and Social Research, some of the results of which are published today.

It is suggested that the Government was right to be concerned that the UK's production and exports consisted too much of standard machines instead of those incorporating high technology.

However, subsidies for experimental and advanced machine tools, though perhaps helping

to mitigate the industry's deficiencies, have not tackled the root causes of the problem which seem to lie in a generalised technological backwardness."

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"About half of all employees in this industry in Britain and Germany are termed as craftsmen, but those so classified in Britain have not been required to attend any courses or pass any practical or theoretical test, it says.

With the encouragement of the Government-sponsored Industrial Reorganisation Corporation, Herbert was built up via mergers so that at its

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